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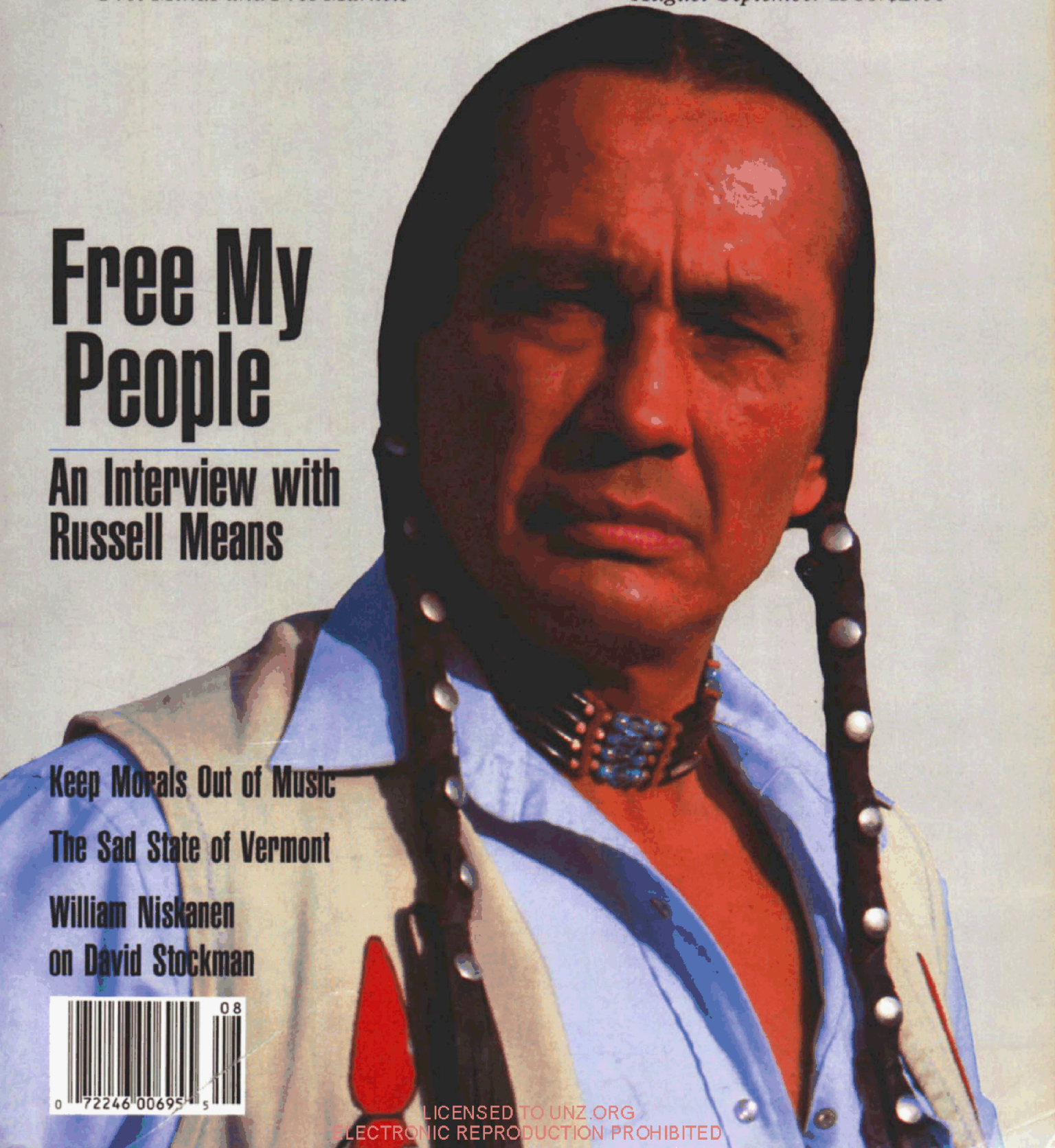

Free My People

An Interview with Russell Means

Keep Morals Out of Music

The Sad State of Vermont

William Niskanen on David Stockman

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Austrian Economics at George Mason University
"A New Vienna"

THE UNIVERSITY. Located in Fairfax, Virginia, just 15 miles from Washington, D.C., George Mason University is naturally positioned to influence political, cultural, and academic affairs. The university's rapid growth and influence led *Time Magazine* (April 28, 1986) to include George Mason as one of nine "fast-rising and ambitious institutions that are now challenging the nation's elite schools."

F.A. Hayek

THE ECONOMICS DEPARTMENT. The Economics Department houses the Center for the Study of Public Choice and the Center for the Study of Market Processes. With such renowned economists as James Buchanan, Gordon Tullock, and Walter Williams, the department is among the best known and most highly rated in the world. Combining rigorous training in neoclassical economics with innovative ideas in theory and policy, the Economics Department trains economists for positions in academia, government, and business. As a measure of the department's success, *The Wall Street Journal* (September 20, 1985) reported that George Mason economists "have become an important resource for the Reagan administration."

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For further information, contact Dr. Jack High, Center for the Study of Market Processes, Department of Economics, George Mason University, 4400 University Drive, Fairfax, Virginia 22030, 703-323-3483.

W.H. Hutt

Center for the Study of Market Processes

CSMP

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Here's a simple but powerful investing technique that anyone can understand. It's based on the rise and fall of interest rates. And you can profit handsomely whether the rates go up or down.

"Hot Tips" and Hard Work...

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But you know enough to know where *that* gets you.

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- The opportunity usually occurs only three, maybe four, times a year.
- *And* you get favorable tax treatment on your profits.

I know, I *know.* It sounds too good to be true.

22 Great Little Investments

But I *guarantee* that if you read on, you'll *surely change your mind* when you find out more about The TED Spread.

So...what's a TED Spread?

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Recipe for Success

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- *When* and *how* to implement it
- *Which* brokers to contact (or use your own)
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- *When* and *how* to take profits
- Commission costs...tax treatment...

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The Upside, The Downside.

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250 points	$ 3,750
150 points	$ 1,250
Bought at 100 points	
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I'm out of space. If you are curious enough to know more, just pop the coupon in the mail.

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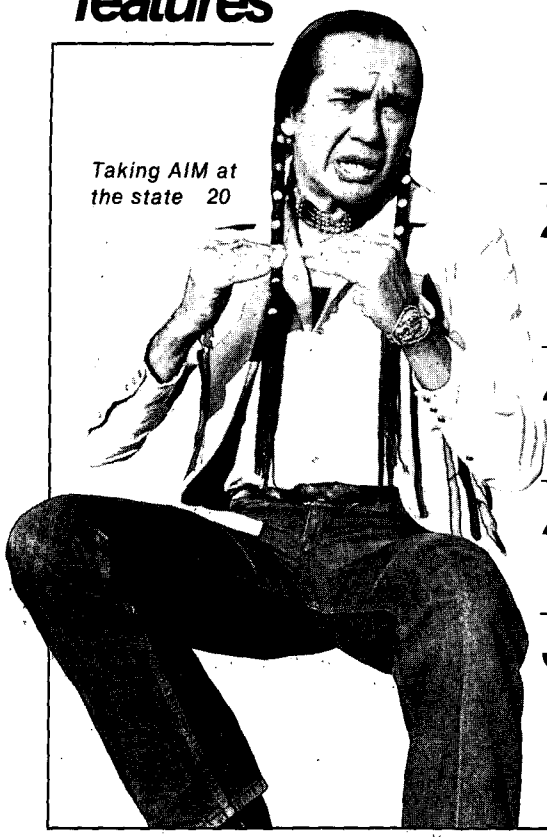
features



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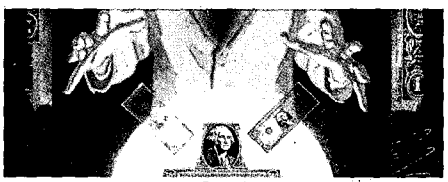

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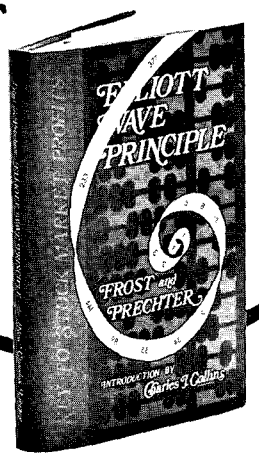

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up front

REASON on the Move

Los Angeles, here we come! The boxes are not packed yet, but as this issue goes to press, REASON magazine and its parent "think tank," the Reason Foundation, are nearing the final, frenetic stages of a long-planned move to "the Big Orange."

There's no denying the beauty of Santa Barbara, the community nestled between the Pacific Ocean and the Santa Ynez Mountains that REASON has called home for 15 of its 18 years. But looks don't count for everything, as they say. People who have enjoyed Santa Barbara's near-perfect climate and breathtaking views of the Pacific are often aghast upon hearing of our decision to relocate 95 miles south to the freeway jungle of America. So why are we going?

Access is one big reason. Our access to a large and vital community of university people, media people, and business people; and others' access to us. Increasingly, REASON and the Reason Foundation have become a source of information on a whole host of current issues, but there's only so far the telephone will serve in this respect. Being located in one of the country's major cities, we figure, will help us spread our ideas around more and will help others find us more easily.

Creating an outpost of free-market and individualist thinking in Southern California is another reason. Washington has the Cato Institute and Citizens for a Sound Economy and, more conservative, the Heritage Foundation. New York has the Manhattan Institute. Chicago has the Heartland Institute. Dallas has the National Center for Policy Analysis. San Francisco has the Pacific Institute. But Los Angeles, the country's second-largest city, has no "rep" in this growing network of groups devoted to advancing individual liberty in the marketplace and in personal matters. What an opportunity for REASON!

Not everyone on the staff is moving, of course. For example, I'm losing my right-hand man, Managing Editor Eric Martí, whose dedication and good spirits have been invaluable over the last few years. While we'll miss him, we're glad for his prospects: having decided to go back to school and get an M.B.A. so that he can progress on a bit different track in publishing, Eric was accepted for admission to the prestigious Graduate School of Business at Stanford University. So we wish him well—and reorganize our staff around new people with new functions.

Meanwhile, in an exciting development in connection with the move, Bill Kauffman, who joined the staff a year ago, will be heading east to take up residence in the cesspool on the Potomac as a Washington editor for REASON. There, he'll continue to do a lot of what he's doing now—writing for the magazine, editing, working with REASON authors, brainstorming cover headlines, etc., etc., etc.—and also being a point of contact in and around D.C. for authors, interviewees, and assorted high muckamucks. After only a year, it's hard to imagine the office without him . . . but he'll be only a modem away.

All in all, a solid core of the magazine and the Foundation is moving. By June 27, every last paper clip will be packed and the moving van will pull up, and when next you hear from us, it will be from Los Angeles. Or actually, in a little ironic twist, from that western enclave of L.A. called Santa Monica, where political life bends in the direction of resident radicals Tom Hayden and Jane Fonda. We're ready. Move over, Tom and Jane—here comes REASON!

—Marty Zupan

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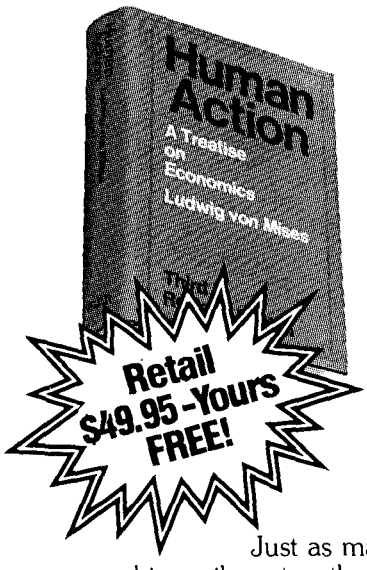

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letters

The Cushiest Job You'll Ever Love?

Two days after reading James Bovard's investigative report on the Peace Corps ("JFK's Baby at 25: Alive and Bumbling," May), I received an alumni newsletter from my high school. It contained an article about one of my schoolmates who is now a member of the Peace Corps. The article disclosed some rather surprising facts regarding the conditions under which he lives and works: "[My former schoolmate] says he has a unique setup with a 6-room house, air conditioning, a pool and tennis court 2 kilometers away, while most of his friends live in huts!" He also extended an open invitation to any and all alumni who might wish to be party to his hospitality: "Anybody who comes over to visit," the article reported, "can stay at his place for three weeks free of charge (free food, drink and lodging)."

Lawrence E. Kahn
Martinsburg, WV

Evils of Pornography?

I want to congratulate you on your frank discussion of the difficult philosophical problems which arise in attempts to identify the evil of pornography ("Reagan's Smutstompers," April). It is a pity, however, that Martin Morse Wooster did not more effectively discipline his treatment, even though some of the points he made need wider recognition.

It is true that a campaign against "pornography" can result in a campaign against the free expression of ideas. To a "libertarian," however, the ultimate case against much that is published in *Playboy*, *Penthouse*, and *Hustler* is that it is in appallingly bad taste. I recognize what I believe to be pornography and I loathe it in the same spirit that I loathe all other manifestations of what I regard simply as deplorably bad taste.

Hence for me, the case for the suppression of pornography must rest on the public's conviction that the publications to be forbidden have an evil social influence. A fruitful discussion of this topic demands, of course, the utmost tolerance. But the fact that many of the critics of pornography's consequences have not written dispassionately does not justify an attack on the government's proposal for efforts to "scientifically identify and define 'pornography' and its variable effects upon adults and juveniles." The attack which I deplore is on a request for a wholly dispassionate and frank examination of the problem raised.

W. H. Hutt
University of Dallas
Dallas, TX

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Does Meese Read Hustler?

Of all the government staff involved in the smutstomping campaign, wouldn't it be interesting to know how many watched a porn film *twice*? Or have a copy of *Hustler* in their bottom desk drawer? Or have watched X-rated films on their *own* VCRs? Anyway, if they spent less taxpayer money on research, I could afford to rent one more porn flick—assuming hard-core taxes were reduced accordingly. (P.S. Don't remind the porn commission about the Miss America Pageant!)

Steven Zieg
Anaheim Hills, CA

Spy Without Honor

Writer Craig M. Collins states ("The Spy Who Found Honor," June) that James Bond and Robert McCall of TV's *The Equalizer* "share a common enemy—evil." Yet one must wonder at this estimation, at least in the case of McCall. Examine the premise of the program. McCall helps people without asking compensation, and does so on the basis of the

reason

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needs of the "underdog." That is bad enough; but a recent episode revealed even more disturbing character traits. The episode involved a conflict between a landlord and his tenants. The landlord was portrayed as a selfish money-grubber, unfortunately also a wife-beater and thug. The tenants were elderly, living on fixed incomes in rent-controlled housing. The landlord wanted the tenants off of his property in order to build luxury condominiums for "more profits" (the implication being negative, of course). The tenants would not leave. Denied the right to the use of his property, and unable to circumvent housing regulations, the landlord tried to force his tenants out by employing bully-boys and using other unsavory tactics, all on the fringes of legality. Enter McCall. Where the People's State failed, he succeeded. The landlord was sent to jail. Control of his capital fell to the compassionate wife, who proceeded to dump unrecoverable thousands into the still rent-controlled building. The tenants were satisfied. Social justice was done.

The Equalizer is aptly named, fighting as he is for social equality. I'm not certain what the evil is that he *opposes*. Collins's comparison suffers from a serious misconception. McCall is less a James Bond than an Ellsworth Toohey, the evil altruist of Ayn Rand's fiction, with spunk.

James Robbins
Cincinnati, OH

Honorable Heroes

I second Craig M. Collins in his praise of *The Equalizer* and its hero, Robert McCall ("The Spy Who Found Honor," June), with two cavils: First, he overstretches his argument that the Sean Connery interpretation of James Bond is no more than a cold-hearted monomaniac. The Fleming novels certainly portrayed Bond as being capable of tenderness and vulnerability, and the Connery movies projected a latent sense of personal decency and physical exhilaration. As one whose sense of life was strongly influenced by the popularity of James Bond in the early 1960s, I remember only the intense *vitality* of the character, not an insensitivity to life.

Second, it is too bad that Collins doesn't recall the "other" spy hero of those years: Patrick McGoohan's masterful portrayal of British agent John Drake in the long-running BBC series *Danger Man* (brought to the United States for one season as *Secret Agent*). Never flashy or enamored of gunplay, Drake relied on guile, stealth, ingenuity, and daring to discharge his missions—many of which involved ethical dilemmas. Subsequently, McGoohan continued the Drake character in *The Prisoner*, surely the archetype of resigned-agent situations, in which a courageous individual maintains his moral integrity in the face of enormous pressure to conform and compromise. Drake's cry of defiance remains etched in my memory: "I am *not* a number—I am a *free* man!"

McCall, Bond, Drake...why do all these sterling characters have to be British?

Michael J. Dunn
Auburn, WA

How Big a Stick Must America Carry?

Bill Kauffman's editorial "Real Conservatives Don't Start Wars" (May) came at a propitious point, since REASON must have reached readers just as Ronald Reagan decided to bomb Libya. For that reason alone I wish the piece would have been less glib and facile and more analytic and argumentative. It is cute, of course, to go after George Will and his ilk, what with their pious posturings about anything they have earnest feelings about. But that does not solve the problem of just what should be US foreign policy and why.

Consider the Libyan affair. The United States has reasonably friendly relations with most European countries and this encourages a good deal of foreign travel by Americans. Now Libya chooses to threaten US men and women throughout Europe and has had a history of carrying out such threats—most recently, through its East German outpost, in West Berlin. The European governments are either not eager or lack the competence to fend off Libyan aggression! What should the government of the targeted people do? With the foreign policy of the late Sen. Robert Taft, the answer would be to recall all these citizens and forgo the benefits of all foreign affairs. By not adopting such isolationism, to what measures does the US government commit itself, if any?

There is also the matter Kauffman raises regarding the "crusade" against communism. Here, too, he does not handle the difficult problems but indulges in dickering about who is conservative, who is neoconservative, etc. But the fact is that the Soviet Union, as a self-proclaimed Marxist-Leninist state, is on record promising to eliminate the capitalist world in its capacity as the leader of the worldwide revolutionary movement toward communism. In this light, the campaign against communism could easily take on the defensivist stance that even Taft conservatives would have supported on the part of the US government. I would gladly hear arguments to the contrary, because I have no yearnings for militarism. But Mr. Kauffman has to do better than be flippant and clever to come to terms with the issues involved.

Tibor R. Machan
Senior Editor, REASON
Lugano, Switzerland

Mr. Kauffman replies: Tibor Machan concentrates his pedantic fire on straw men, distorting my position (and Senator Taft's) in the process. I am neither a pacifist nor an autarkist. I simply believe that the globalist course the US government embarked upon in the mid-20th century is destructive of our liberties, subversive of our character, and is reducing the proudest, freest country in history to just another garrison state. The wise Old Right stalwart Felix Morley wrote at length about the incompatibility of republic and empire. Our postwar politicians have succumbed to the latter's siren song; the price we pay for their imperial arrogance is going to include incurring the wrath of the Qaddafis of the world. Tragically, American civilians and military installations will continue to be targeted by Arab nationalists and terrorists until we renounce empire and return our government to the limited duties the Founders so prudently prescribed. I trust this response is sufficiently unclever for Dr. Machan.

American Empire? Tell Me More

I was fascinated by Gerry Walsh's letter in the June issue, in which I learned for the first time that the United States has an empire entirely comparable and apparently equal to that of the USSR. I hope Mr. Walsh will be good enough to fill us

letters

in on some details:

I am wondering where our Gulag is located? I have asked some friends in Alaska if it is there, and they tell me that if it is they have not heard about it. Of course, this does not mean that the CIA is not operating one in secret in this, our closest approximation of Siberia. I am also curious as to the last time we sent tanks into West Germany or Japan to ensure that they were carrying out our orders. I would also like to know the strength of our divisions in Israel and in Egypt, and I am wondering how it is that we allow free elections in both those countries? If we do, it should be stopped at once, of course, because the Soviets have proven that one party is enough. In this connection, do you suppose that our elections are really only shams, described by a controlled media but not ever a reality, and that all decisions are made by a group of perhaps 10 appointed officials in Washington, who then choose a leader who is the president of the United States? And where are our psychiatric hospitals for those who do not agree with the administration? I cannot find any evidence of them, but I am sure Mr. Walsh could enlighten us if he would.

Powell Cary
Dallas, TX

Making My Day, Once Again

The recent shift to emphasis on civil liberties in REASON has renewed my faith in it. I was beginning to worry REASON was turning into a clone of the New Right, with cover after cover devoted to anti-communist struggles in various Third World countries. What do I see now? Ideological bravery. A cover story on "Reagan's War on Porn" (April). Reports on the losing battle of drug enforcement. Editorials condemning Reagan's bloated military budget (you made my day, Bill Kauffman!).

How thrilling it is to read, in a distinguished magazine like REASON, educated, well-thought-out defenses of liberty. How sweet it is to agree with nearly every article; to realize, "Hey, I'm not alone here." There's hope for the America Thomas Jefferson envisioned, and you at REASON are "fighting the good fight." Right on!

Laura Brown
Los Angeles, CA

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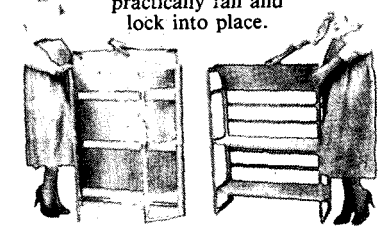

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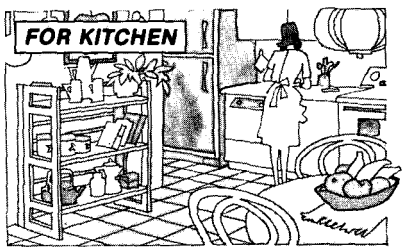

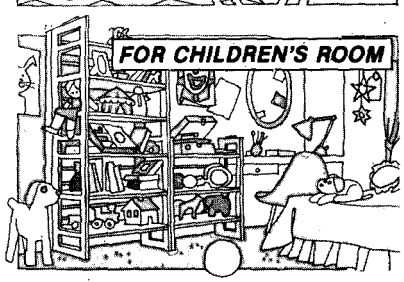

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Say No to The Neopuritans

Robert W. Poole, Jr.

Warning: This editorial discusses various aspects of sexual behavior. Those offended by frank discussion of this issue may wish to turn the page.

Sex is still a difficult subject for Americans to deal with. Other advanced societies seem to take a far more matter-of-fact, live-and-let-live attitude toward sexual matters—in many European countries nude beaches, prostitution, and erotica are legal, and Japan has a long tradition of pillow books and sex hotels. Not everyone in these countries makes use of these practices—but those who don't, generally do not try to invoke the force of law to deprive others of them.

But not here. Not these days. America's baby-boom generation is the first to come of age since the development of nearly foolproof contraception. So the past 25 years have witnessed a "sexual revolution" in which—at least for the younger generation—openness about sex has become the norm. But those who make the laws and control the government are mostly from earlier generations. For them, the specter of sex-as-sin still retains much of its power.

For the past five years or so, a neopuritan movement has been attempting to play on our lawmakers' unease about sex. Led by a Mississippi preacher, the Rev. Donald Wildmon, they have labeled all forms of erotic materials "pornography" and argued that this pornography causes crime, the destruction of families, and other assorted evils. Their campaign caught the eye of the Reagan administration. Last year, Attorney General Ed Meese appointed a national commission heavily stacked with these people (see "Reagan's Smutstompers" by Martin Morse Wooster, April) to investigate the problem. Now the commission report is out, and its conclusions bear out individualist worries.

One of the most troubling aspects of the commission's work is its deliberate distortion of the everyday meaning of certain key words. Drawing heavily on the rhetoric and style of Wildmon's National Federation for Decency, the commission's basic M.O. was to give expansive new meanings to terms that carry strongly negative emotional connotations for most Americans. Three principal examples:

• *Pornography.* The commission, like Wildmon, used this single term to apply to all forms of erotic material, from the simple nude photos in *Playboy* to bizarre fetishist movies like *Big Tit Dildo Bondage*. Focusing heavily on examples of the latter in its reports and exhibits to create a negative reaction among ordinary people—and no doubt among its own members—the commission then capitalized on this reaction by snaring *Playboy* and R-rated cable films in the same "pornography" net.

• *Organized crime.* After failing to produce evidence that the expansively defined "pornography industry" is controlled by the Mafia, the commission relied on the following sort of verbal sleight-of-hand, as offered by FBI pornography-hunter William P. Kelley: "[If you have] an office, toll-free telephone number, a warehouse of some size, several salesmen, and possibly even a fleet of trucks—I call that a highly organized business enterprise," Kelley testified. Fair enough. But now get this: "And where dealing in legally obscene materials, it is [therefore] 'organized crime,' " he continued. And sure enough, the commission's report is full of scare-mongering about the involvement of organized crime in the distribution of erotica.

• *Child pornography.* Every decent person is opposed to the sexual exploitation of children in pictures and films. *That's* what "child pornography" means. But to capitalize on that opposition, commission members attempted to define all sorts of *other* things as "child pornography," too, including the possibility that kids might tune in an R-rated movie on cable TV, or even the depiction of adult models in child-like poses or costumes.

The underlying premise of these people is a form of moral collectivism—that their view of proper sexual behavior is the only one that should be permitted by law. Their excuse for thereby depriving others of their liberty? According to Ed Meese, a "healthy society" must control "the ways in which its people publicly [!] entertain themselves." The commission's two clergymen, Revs. Bruce Ritter and James Dobson, contend that even "nonviolent, nondegrading" erotic material "weaken the family" and should therefore be illegal. Some commission members even think that nonviolent, consensual activity such as oral sex or possessing a vibrator should be illegal. Their concept of the collective good of society, they say, ought to overrule individual choice—voluntary, noncoercive choice, in the most personal and intimate of all human concerns.

By its very nature, sexual response is a matter of a person's individual nature. What turns someone on is a complex result of his or her upbringing, book-learning, character, personality... who knows what! The more we learn about sexuality, the more we realize how diverse people's tastes and turn-ons really are, as witness the bestselling *The Joy of Sex* with its vast array of possible (nonviolent, consensual) sexual practices.

Thanks to numerous studies and books, both scholarly and popular, we now appreciate what a key role fantasy plays in many people's sex lives. One reason for the immense popularity of adult videos and other X-rated erotica is their role in encouraging fantasies that can make for better sex. (Some facts: 40

percent of male and female respondents to a *People* magazine survey have watched at least one X-rated video on a VCR. Some 60 percent of adult-video customers are women. Overall, 13 percent of video-store revenues comes from adult videos.)

The underlying premise—that the law should forbid materials that people use as adjuncts to sexual pleasure—must be challenged. Since no two people are exactly alike in their sexual psychology, the law must steer clear of attempting to dictate and circumscribe individual choices in so profoundly personal and intimate an area of life. What's at stake here goes far beyond hair-splitting interpretations of the First Amendment. At issue is the bedrock principle of individualism enunciated in the Declaration of Independence—the inalienable rights to life, liberty, and the pursuit of happiness.

It is high time the neopuritans were put in their place. Yes, they have every right to their views of what is and is not "decent," "proper" sexual behavior. And they have every right to use the means available to people in a free society—speaking out, publishing, boycotting—to convince others of their views. But they have *no* right, none whatsoever, to use the force of law to outlaw private, voluntary, noncoercive actions by adults—such as producing or buying erotic videos, books, magazines, or devices.

No one has stated this principle of moral individualism better than 19th-century political philosopher John Stuart Mill. In his classic volume, *On Liberty*, Mill wrote: "The only purpose for which power can rightfully be exercised over any member of a civilized community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant." ◧

Don't Blame The Lobbyists

Eric Martí

Imagine the shock our national politicians felt in learning that former top Reagan aide Michael K. Deaver used his access to high-level government officials to lobby for various foreign-government and business interests. Ex-government officials "have acted as if public service is a license for serving self-interest and private interests," sniffed Sen. Gary Hart (D-Colo.). And Rep. Ron Wyden (D-Oreg.), in what must have been a revelatory moment indeed, intoned with wide-eyed incredulity: "Many people are starting to presume that Washington is up for sale."

From all the professed indignation, you might have wondered if the tenants of Capitol Hill truly don't see what a marketplace of favors and influence Washington really is. How, we ask, could they have missed the 9,000 domestic lobbyists registered with the secretary of the Senate? Or the 800 firms and 6,000 individuals listed with the Justice Department as agents of foreign interests? And aren't House members really aware that they received 41 percent of their 1984 election funds from political action committees, or that in the 83-84 campaign season, PACs gave $111 million to House and Senate candidates (72 percent of which went to incumbents)? And don't they know that a hundred or more of their ex-brethren from Congress still roam the halls of government, now as lobbyists?

Of course they know. But the smoke and flash of their indignation masterfully deflects attention from their own role in what has become a national bazaar of special-interest politics.

As government scandals go, the events that spawned this latest round of pieties about the oxymoronic notion called "government ethics" aren't all that juicy. According to a General Accounting Office investigation, long-time Reagan friend and confidant Michael Deaver, who in May 1985 left his post as deputy White House chief of staff, may have broken "conflict-of-interest" laws in lobbying for, among others, the Canadian government (on an acid-rain clean-up issue) and Rockwell International Corp. (to promote the B-1 bomber). Both Congress and the Justice Department are looking further into the charges.

Already, however, a crop of proposals to tighten the conflict-of-interest laws has popped up. Sen. Strom Thurmond (R-S.C.), for example, is pushing a bill to impose greater restrictions on all former federal employees (including ex-members of Congress, who are exempt from the current laws). And three Democrats—Senator Hart, Sen. David Boren of Oklahoma, and Rep. Gerry Sikorski of Minnesota—have introduced legislation to place stricter limits specifically on ex-employees of the executive branch. In such fashion, the reform movement is universally concerned with further restricting lobbying by ex-government employees—as if they do their greatest harm to the citizenry while out of office rather than in.

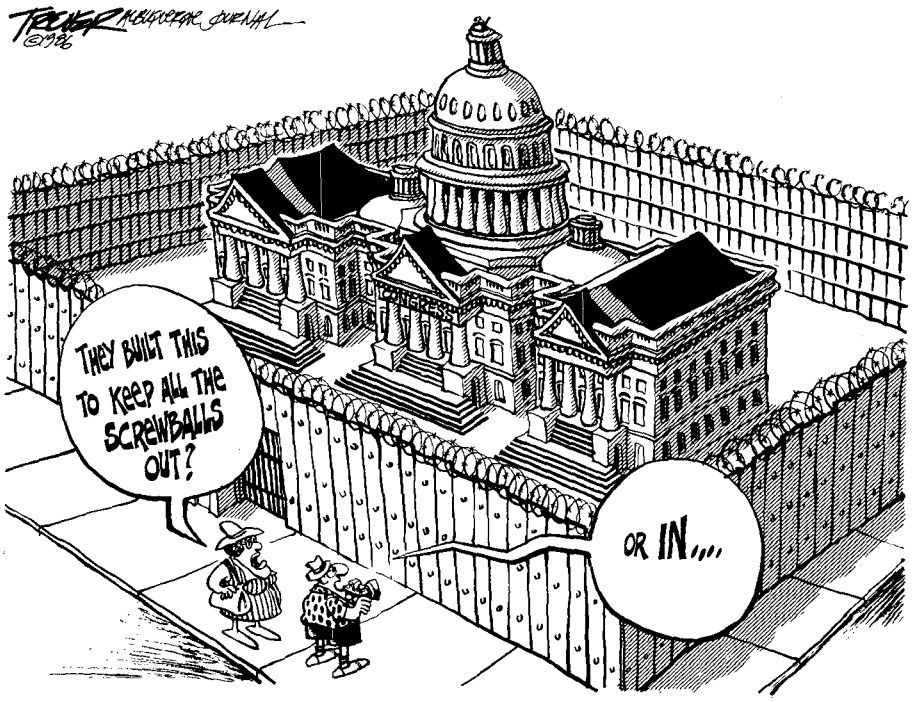
Whatever the moral and legal correctness of such attempts to hem in the activities of private citizens—albeit former employees of the state—one thing is clear. The implicit assumption underlying the current anti-lobbying rhetoric insidiously subverts clear thinking about the issue, for not a bit of it even slightly acknowledges this fundamental truth: If politicians had no favors to dispense—if the state didn't have such broad powers over the affairs of the people—then 9 out of 10 lobbyists would be out of a job, and the rest we wouldn't have to worry about.

To blame lobbyists for the evils of government is akin to blaming the audience for a bad movie. "Washington has become a sinkhole of influence peddling," said an angered Sen. Howard Metzenbaum (D-Ohio), his fury focused on the damnable lobbyists. Yet it's not the lobbyists; it's the lucre of government favors handed out by *politicians*—fat defense contracts, protectionist tariffs, assorted subsidies, etc.—that gives rise to sleazy merchants of "access" and influence like Michael Deaver. Moreover, politicians are free to say no to the importunings of lobbyists, a point that many seem to have forgotten.

The great social thinker F. A. Hayek, in his 1944 classic work *The Road to Serfdom*, warned that as the state is permitted to expand its power, at some point the only power worth having is state power. Sad but true, the Deaver affair shows just how far we the American people have let that corrupting process advance. The cure, however, is not yet another set of symptom-treating anti-lobbying laws. It will take more radical surgery to rid the cancerous growth of state power from the republic. ◧

brickbats

Three cheers for liquor store owner Bernard Richter for turning the tables on Chico, California, officials who tried to catch him in an undercover "sting" operation designed to catch liquor stores that sell booze to minors. Three of Richter's clerks were arrested after undercover officers attempted to buy liquor using driver's licenses showing their ages as under 21. The clerks not only refused to sell the cops any liquor, but also refused to hand back the licenses—even after the officers identified themselves. Richter awards $20 bonuses to clerks who spot fake IDs and $100 bonuses to clerks who spot undercover police officers. The awards are handed out only if the ID is kept as proof. The clerks were charged with interfering with an officer. Ah, entrapment! Where is thy sting?



The stalwart salad bar, an American dining-out institution, has come under fire from the New Jersey Assembly. By a vote of 52-14, the legislators ordered the state health department to devise new regulations to protect the public from people who sneeze. So-called sneeze-guards are already mandatory, but Assemblyman Peter Genova says the shields don't protect the food from direct contact with the germs emanating from a sneeze or a cough. Some lawmakers felt Genova was needlessly instilling fear in people. "There hasn't been a certified case of a person being struck down by a carrot stick or a chick pea," says Assemblyman Alan Karcher. "You can't put everything into a plastic capsule," added Assemblyman Thomas Deverin. "This is America. This is a free society." During their private caucus meetings in the statehouse, the legislators often dine on cold cuts and salads spread out buffet-style, without any protective shield. Genova says he's complained about that also, but no one pays any attention.

It's somehow reassuring to know that Poland's Communist leaders still have a sense of humor. Angered by US Senate stipulations on a gift of powdered milk for Poles after the Chernobyl nuclear disaster, Poland announced it will give 5,000 blankets and sleeping bags to the homeless of New York City. The US Senate had offered 50,000 tons of surplus powdered milk to Poland, but on the condition that the aid be routed through church groups to assure it was distributed without regard to political preferences. Tit for tat, the Poles required that their blankets and sleeping bags be handed out by private charities rather than US officials. You might say the Communists were milking the situation for all they could.

Three cheers and a gold-plated specimen bottle to Rep. Gary Ackerman (D-N.Y.), who asked an official of the Presidential Commission on Organized Crime to provide a urine sample for a drug test before giving testimony to Congress. Rodney Smith, the embarrassed official who supports a proposal to require all federal workers to undergo such testing, declined to provide the sample and termed the request "a cheap stunt." Ackerman told Smith the sample would have to be given under the direct observation of a House subcommittee staff member. The request is similar to a requirement being pushed by the commission. When Smith protested he wasn't warned that he'd be subjected to the test, Ackerman shot back, "Are there warnings to federal employees as to when their urine will be tested?"

It isn't safe for New Jersey bureaucrats to fall asleep in the barber's chair anymore. A new law says all hair stylists, including barbers, must have taken a 500-hour beauty-culture course and pass an exam by a new Board of Cosmetologists and Hair Stylists. The state is terribly worried about the qualifications of barbers because the spread of unisex shops has blurred the traditional distinction between barbers and beauticians. Previously, barbers were licensed by the state Board of Barber Examiners while beauticians were licensed by the Board of Beauty Culture Control. Barbers could not bleach or color hair or give permanents. Beauticians could not shave customers, give tapered haircuts, or trim beards. "Who are they to tell me I'm not qualified when I've been doing it for over 20 years without any complaints by my customers?" asks irate barber Domenick Santucci. The bottom line of the law will mean the demise of a man's haircut for less than $10, he says. Regulators are unimpressed. Will barbershop quartets be next?

—Mark Edward Crane

DANGER

All Your Personal Assets Could Be Wiped Out Overnight

There is only one completely safe way to protect your car, home, cash, and other personal assets from business risks

It's downright scary.
As a self-employed individual, your home, cash, stocks, and other personal assets are always at risk.

The big fear is that a business disaster, which is beyond anyone's control, could happen to you. An accident, lawsuit, or financial loss . . . events which happen every day . . . could wipe you out.

A major problem is that we live in a "litigation-happy" society. It's often a dangerous and naive assumption to believe that no one will ever sue you. A lawsuit could be filed by a customer, supplier, relative, or disgruntled employee. In fact, there is a strong probability you will be sued in the near future even if you are very careful. You could lose, often on some technical point of law with which you are unfamiliar. If so . . . boom! Just like that you could lose your business. In addition, your home, cars, cash, stocks, bonds, and other assets could also go down the drain without proper protection.

Fortunately, you personally can avoid this risk. Completely. How? Incorporation.

The only way to separate business from personal assets is by forming your own corporation. Almost no amount of insurance can protect you from all kinds of risks like incorporating can. And you can do so even if you are the only employee. In this way, if the worst happens, you lose only what is invested in the business itself.

Incorporation is also an important option for the doctor, dentist or other professional. Unfortunately, *many* are currently dissolving their professional corporations because of the enhanced Keogh rules. However, *many* are unaware of the risks they are taking.

An incorporated physician does *not* avoid personal liability in conducting his profession, during surgery for example. But he/she does protect personal liability just like any other small business person when it come to debts incurred by the practice, non-medically related lawsuit judgements, leases, investments which go sour, etc.

But, a word of caution. Misinformation about incorporation abounds. If any of your advisors have recommended you not incorporate or dissolve your corporation . . . whether you have employees or are a one-person operation . . . you'd be smart to consider all the facts. Only then would you be in a position to make an informed decision.

Myth Keoghs have been so enhanced by the new laws, corporate plans have no advantages.

Fact Under current law changes affecting Keoghs, the advantages corporate plans had have been lessened somewhat only with regard to retirement plans.

Fact Corporate plans are still advantageous. In a corporation, even a one-person operation, you can have both a pension and profit-sharing plan in which you can invest up to $90,000 a year. You can only invest $30,000 maximum in a Keogh.

Plus, in a corporate plan you can set up a medical reimbursement plan. You can then fully deduct the entire cost of all dental expenses including physician and dental fees, drugs, even vitamins, and special equipment if prescribed.

Myth You can make the same kinds of investments in Keoghs that you can in corporate plans.

Fact In corporate plans you have greater flexibility over your investments. For example, you can invest in gold and silver coins which are specifically excluded in Keoghs and IRAs.

Myth Tax planning is no different whether you are incorporated or not.

Fact When incorporated, you can choose a fiscal year different than December 31, which could provide you major tax planning advantages.

Myth In case of accident or death, a proprietorship, partnership, or professional association is just as easy to transfer as corporations.

Fact A corporation is far more easily transferable in case anything were to happen to you.

Other benefits of incorporation include: lower than personal tax rates . . . as low as 18% . . . compare this to what you pay now; dividend income 85% tax-free; tax-free cars, boats, planes, meals, and entertainment; tax-free insurance; no-interest loans; and write-offs for office-at-home.

A remarkable book, which has already helped over 800,000 people set up corporations, provides the answers you need. Its title is HOW TO FORM YOUR OWN CORPORATION WITHOUT A LAWYER FOR UNDER $50 by Ted Nicholas. You can now review it without risk to see how it may help you. You can review all the advantages and possible disadvantages to your specific situation.

After you review it, if you decide to incorporate, the book even includes ready to use tear-out forms for minutes — by-laws — even the certificate of incorporation itself.

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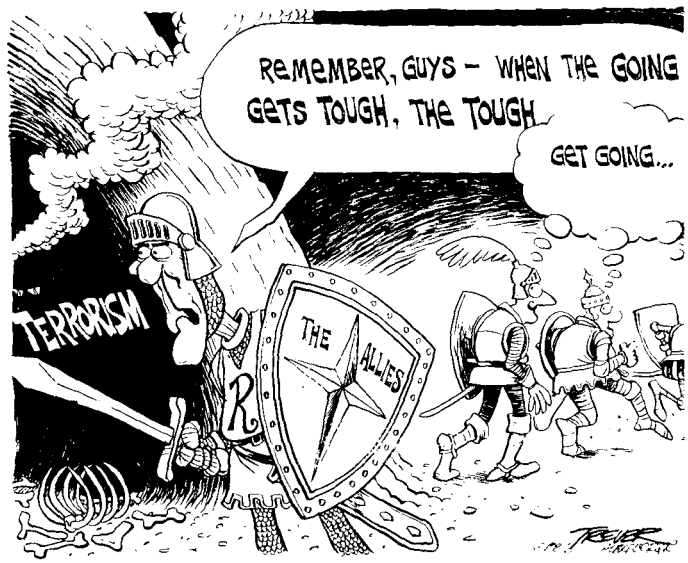
Foreign Entanglements Unravel at the Edges

For four decades now, the US government has entangled itself in a complex web of global commitments and adopted a foreign policy contrary to George Washington's plea to posterity to "steer clear of permanent alliances." But there are increasing signs that two of these alliances—NATO (North Atlantic Treaty Organization) and ANZUS (Australia-New Zealand-United States)—may not be so permanent after all.

A small band of dissidents in the United States has long been disenchanted with the NATO alliance. The refusal of NATO allies (excepting Great Britain) to support the US attack on Libya opened a few more eyes, prompting a more widespread reexamination of the benefits of a lop-sided alliance that eats up *$135 billion* of American taxpayers' money each year.

Christopher Layne, the young foreign-policy analyst whose noninterventionist essay in the winter issue of *Foreign Policy* drove the establishment up the wall (see REASON's "Real Conservatives Don't Start Wars," May), wrote in the *Los Angeles Times* that the split reflected differing perceptions of NATO's purpose. The Europeans "believe that the alliance exists solely to defend Europe itself," he noted, while the United States "believes that NATO's strategic responsibilities should encompass the protection of Western interests in the Third World."

If our allies refuse to support us, argued New York University professor and Hoover Institution scholar Melvyn Krauss in the *New York Times*, why not make them pay for it—say by withdrawing some of our troops? "The answer is the doctrine of Atlantic unity. . . . It is no small irony that this doctrine, which minimizes the costs to Europe of opposing American interests, has worked toward our mutual estrangement." Concluded Krauss: "It is time for both the United States and its allies to take a more realistic view of their relationship."



Expect to hear more of Krauss if substantial anti-NATO sentiment develops in this country. His book *The Alliance Trap* is due this fall; Hoover Institution polemicist Gregory Fossedal has already hailed it as the first step toward the day "American troops. . . return home from Europe."

That day is still several years off. But ANZUS, a smaller, less consequential alliance, may be on its last legs.

Credit for the possible dissolution of this 35-year-old alliance belongs to New Zealand Prime Minister David Lange, who has made good on his 1984 campaign pledge to bar nuclear-armed or nuclear-powered ships from New Zealand ports. Despite US pressure to reconsider this policy, Lange has held firm. He has scheduled a crucial parliamentary vote on the matter in August. If he wins, editorializes the *New York Times*, "New Zealand would thus exclude itself from ANZUS and invite a new American arrangement with Australia alone."

ANZUS is in tatters, asserts analyst Ted Galen Carpenter of the Washington D.C.-based Cato Institute, because it, too, is different things to different nations. To New Zealand, it is a conventional defense pact, not a South Pacific NATO. Says Lange: "New Zealand does not. . . expect to be defended by nuclear weapons."

The US government, on the other hand, sees ANZUS as part of a unitary Western alliance. The military means of protecting members of this alliance are "indivisible," writes Carpenter. Or, as Assistant Secretary of State Paul Wolfowitz puts it: "We have only one navy. . . not one navy to accommodate one country's policy and another navy for the rest of the world."

In US eyes, New Zealand desires a free ride—protection by the United States without corresponding responsibilities toward it. Yet Lange seems willing to give up the free ride. And why not? Observes Carpenter: "Given its geographic isolation, New Zealand would be an unlikely arena for military combat even in a worst-case scenario—a war between the two superpowers. Only its previous willingness to serve as a host to America's nuclear navy made that pastoral nation a potential military target."

The *New York Times*'s editorialists seem to have missed Lange's point. New Zealanders, noted the *Times* recently, "are not alone in wanting to nestle under America's nuclear umbrella while indulging in antinuclear morality." It's our Western European allies who are snuggled up tightly and will be harder to dislodge. If nothing else, the destruction of ANZUS should serve to put them on notice that alliances aren't necessarily forever.

Rain or Shine, It's Money in the Bank

How much would *you* pay for a weather report? In starting up Airdata Inc. in 1983, Dallas businessman M. Blake Barker bet that quite a few people would dig into their coin purses for news

trends

about the weather. Like other private weather services, Barker's bet went against the conventional wisdom, which says that weather information is a kind of "public good"—since you can't have any exclusive property rights to weather information (because it's out there free for anyone to take), no one will find it in his interest to invest in collecting it and trying to sell it. So, the conventional wisdom goes, the *government* has to provide weather information. But Barker's bet was a winner.

His Airdata operates WeatherTrak, a computerized phone service that gives callers up-to-the-hour weather bulletins for any of 235 cities around the globe. Barker buys his information from private services, then stores it as taped phone messages. Available in more than a dozen major American cities, the service is targeted at travelers, who find it's handy to know what the weather will be doing upon arrival at their destination. Up to 75,000 a day are paying from 35 to 55 cents per call to find out.

These charges to callers, however, contribute only 25 percent of Airdata's revenues—advertising sales make up the rest. In most cities where WeatherTrak is available, the weather bulletins contain commercial messages of one of four paying advertisers: Continental and United airlines, Hilton Hotels, and Metromedia Long Distance. Sponsors often even include the WeatherTrak number in their regular print and broadcast ads, at their own expense.

A highly technology-intensive enterprise that mainly relies on computers and communications devices, Airdata has a staff of only two people. This year, the company expects to earn $86,000 on $1.2 million in revenues, and for next year Barker projects revenues exceeding $2 million. When it rains it pours?

global trends

Latin American Freedom Promoters Get It Together

MIAMI, FLORIDA—At a recent gathering here of Latin American intellectuals sponsored by the Francisco Marroquín Foundation, the topic was "Prospects for Freedom in Latin America." Not an auspicious theme, judging from recent events. But "in spite of all the empirical evidence," said Manuel Ayau, president of Francisco Marroquín University in Guatemala, "we are optimistic."

The immediate objective of *Foro Latinoamericano*'s participants was to form a bureau of free-market Latin American speakers and to schedule lectures for them in various Latin American cities. "Getting the people acquainted with like-minded thinkers from other countries is a necessary first step," said Lucy Schwank, who organized the meeting. The meeting included lectures by Peter Berger of Boston University, Melvyn Krauss of the Hoover Institution, and Guatemala's Armando de la Torre, as well as working sessions.

The participants agreed that focusing on purely short-term political gains is futile. In Ecuador, for example, a free-market candidate won the recent presidential elections, but lack of support may tie his hands when it comes to fundamental reforms. "It's no use having a free-market president if his own party doesn't understand what it's all about," complained the Ecuadorian delegate.

Bolivia has the opposite problem. "Not a single government official can be described as a free-marketeer, but they were forced to adopt a market-oriented program as the only practical way to stamp out raging inflation," said the Bolivian delegate. "They did it from necessity, not from conviction."

The participants noted that broad efforts on the educational front, attuned to long-run objectives, have proven effective in promoting Latin American liberty. Dr. Ayau's Francisco Marroquín Founsity will be 15 years old this fall, has over 3,000 students, and is a major force on the intellectual scene. "I started out with a discussion group with a few friends of mine about 25 years ago," said Ayau, a former president of the Mont Pelerin Society. "I like to think that our growth is a reflection of the power of our ideas."

Research institutes are another promising approach. Peru's Instituto Libertad y Democracia, headed by Hernando de Soto, achieved international fame with its pathbreaking studies of the informal economy of Lima's *barrios*—a classic case of F. A. Hayek's spontaneous social order. Free-market "think tanks" have mushroomed in most Latin American capitals over the past decade, though not all have been successful. "What we need is some cross-fertilization—a pooling of experiences," said Bill Weston, executive secretary of the Francisco Marroquín Foundation. "We believe that promotion of the speakers' bureau will help further this objective."

(For more information on Foro Latinoamericano and the sponsoring foundation, contact Bill Weston, P.O. Box 953089, Stuart, FL 33495.)

—Julio Cole

Turbulence Reported in Mao's Coffin

FIVE-YEAR PLANS in Communist countries aren't among the world's more innovative documents. But the Chinese government's recently approved five-year plan looks to be another big step out of the Maoist morass and toward a more liberal economy.

The ambitious blueprint calls for what the *Wall Street Journal* terms "a massive transfer of administrative power from central authorities to local governments and an equally major step to gradually remove government at all levels from business and industry." Though the plan is not long on particulars, details include:

—Railways and port facilities will be decentralized. The state must contract if it

(Continued on page 18)

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Thirty Million Americans Are Going All the Way

By now, even the skeptics can't help but notice that local governments across the country are successfully privatizing many of their services. But hard-core cynics may still wonder: just how far can privatization be taken? The answer is found in the blossoming residential phenomenon known as proprietary communities. In these privately owned and planned developments, private organizations provide everything from garbage collection to police protection, fire-fighting service, and community transportation. "Within their enclaves," reports *The Economist*, "these associations perform all the functions of a small government."

Twenty-five to thirty million Americans now live in proprietary communities, which can be composed of condominiums, single-family detached homes, town houses, or high-rise buildings. Some are large, but most are not—the typical new association consists of 60 condos or 150 houses, with common areas and shared facilities.

Utopia? Lakes, mini-parks, a shopping center, and medical facilities are part of Woodbridge Village, a private community of 6,200 houses and apartments in Irvine, California.

All proprietary communities are governed by associations of which every owner is automatically a member. People who buy property in such a community must agree to abide by the association's rules, which may dictate anything from the color of residents' curtains to the areas where a car may be repaired.

Why do people choose to live in private communities? One reason is the recreational opportunities; many developments offer golf courses, swimming pools, tennis courts, saunas, hot tubs, gyms, hiking trails, and jogging paths.

The shared costs of proprietary living make other amenities affordable as well—like technology. At Las Colinas, a 12,000-acre development near Dallas, residents have access to several nationwide computer databases, over 20 radio stations, and 30 television channels of current movies and special programs.

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(Continued from page 17)

desires to use them.

—Internal airlines, post, and telecommunications departments may set rates at profit-making levels and keep 90 percent of those profits.

—Control of education will devolve from the central government to local governments, in order to end "excessive and rigid state controls over schools."

—The price of electricity will be determined by the market, rather than government edict.

—Price controls on most goods will be allowed to fluctuate as demand increases or decreases.

The tone of the document is perhaps its most encouraging aspect. References to "initiative," the "enterprising spirit," and the need "to separate the functions of government from those of enterprises" suggest the radical break that Chinese ruler Deng Xiaoping is making from Maoist orthodoxy.

One reform Deng has encouraged for several years is the private ownership of homes. Most Chinese are renters, assigned to state-owned apartments. They are dirt cheap, with rent equal to about 5 percent of one's income. But they are also, predictably, scarce.

Certain cities, such as Wuhan, are experimenting with rent increases to discourage demand. Peking and Canton have built housing developments in which overseas Chinese can buy apartments for their own use or for relatives. And now the government is requiring factories that construct housing complexes for their workers to sell, rather than rent, at least a fifth of all new units.

If these steps seem too tentative to herald a trend, consider the prediction of He Shaoyi of Peking's Municipal Housing Management Bureau. Private homeownership, he says, "is going to be the future of housing in China. The ultimate goal is to have people buy houses rather than have housing assigned to them by their work units."

These communities are not just for the rich. They are often an affordable alternative for the young and struggling, as well; and some, such as Woodlands in Houston, strive for a mix of income levels and ethnic background.

About 2,500 of the 100,000 proprietary communities in the country are "adults only." Security is often the most important feature, especially for the elderly. Many communities have guarded entrances, electronic communications systems, and roving police.

"Another advantage of adult communities," reports the *Los Angeles Times*, "is the opportunity for grassroots, participatory democracy. Residents are encouraged, even mandated, to handle their own affairs—and they do."

The people who live in proprietary communities might not give it much thought, but what they're doing is truly radical—in their own way they're on the cutting edge of a phenomenon of the '80s: privatization.

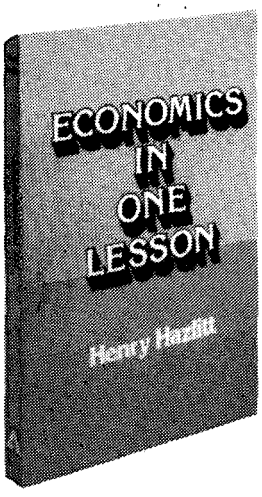
Milestones

■ *No more reruns?* Two Denver-based cable giants, Tele-Communications Inc. and American Television & Communications Inc. (owned by Time Inc.), are discussing with other cable companies the possibility of forming a fourth national network. Visions of taking on the Big 3 have been spurred on by deregulation, which will let cable companies drop required program services that tie up valuable channel capacity. Says John Malone, president of Tele-Communications, "We're tired of selling retreads—we want some prime meat."

■ *Who ya gonna call?* American Telephone & Telegraph has proposed to slash its long-distance charges by $1.5 billion—to 19 percent below the rates that prevailed when the government-enforced Bell monopoly was dissolved in 1984. The biggest cuts would be in daytime and evening calls on weekdays, where competition is strongest. MCI and GTE said their companies will probably match any cuts the federal phone regulators allow.

■ *Just a bad memory.* Synthetic Fuels Corp., the quasi-governmental agency set up in 1980 to subsidize development of a synthetic fuels industry, is dead. Through loan and price guarantees, the corporation was supposed to ante up for synthetic fuels projects that would produce the equivalent of 500,000 barrels of oil a day by 1987; four projects and 4,300 barrels a day later, what poor management and charges of impropriety couldn't get Congress to do, the budget deficit and declining oil prices did: in December it pulled the plug, and by spring the SFC had breathed its last.

—Robert W. Poole, Jr., Lucy Braun, Bill Kauffman, and Eric Martí



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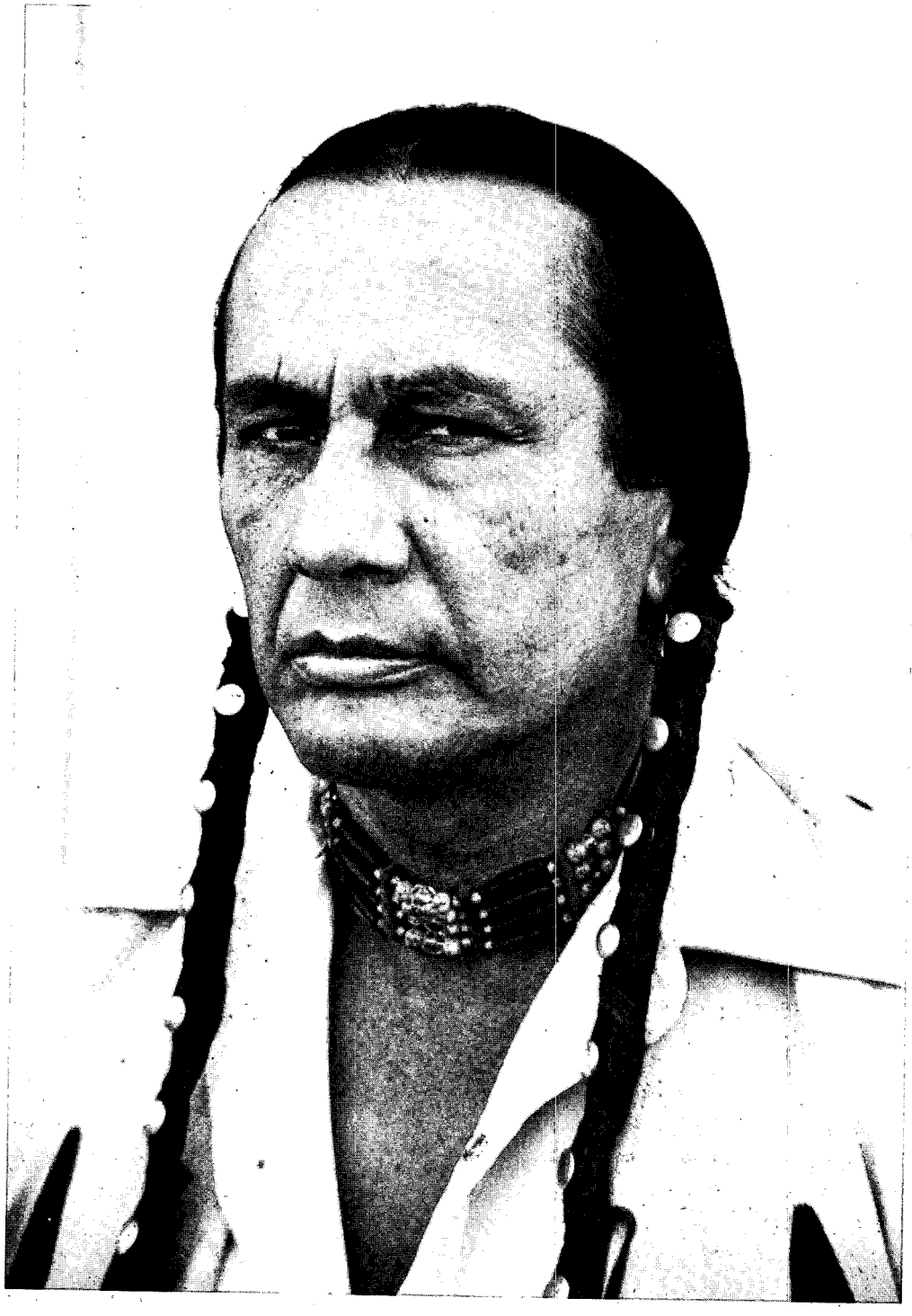


Photographs by Larry Dodge

Russell Means

On the western rim of the small valley that shelters the remote Pine Ridge Indian Reservation town of Porcupine, South Dakota, sits the log building that is home to 46-year-old Russell Means, leader of the American Indian Movement (AIM).

Means's house is just up the road from Wounded Knee, where in 1890, 200 Indians were massacred by a Seventh Cavalry intent on avenging the death of George Custer. Eighty-three years later, Wounded Knee made news of a different sort, when Means led hundreds of Indians in a 71-day occupation of the town, demanding that the US government honor an 1868 Indian treaty. (The government refused.)

Russell Means, an Oglala Lakota Sioux, was born on the Pine Ridge Reservation but spent much of his childhood in Oakland, California. He worked his way through Arizona State University and became a CPA and a rodeo rider.

In 1970, Means established the Cleveland chapter of the nascent American Indian Movement; he rapidly became, along with Chippewa Indian Dennis Banks, AIM's charismatic co-leader. The group's principal demand was, and is, self-determination for the Indian people. To this end, Means has recently taken up the cause of the Indian resistance in Nicaragua (and taken a shrapnel wound in the process).

Means has attracted considerable notoriety for the company he keeps. In recent years, he's teamed with Hustler *magazine's Larry Flynt in a short-lived campaign for the Republican presidential nomination, appeared at Madison Square Garden with Muslim dissident Louis Farrakhan, and traveled to Libya to confer with Muammar Qaddafi.*

With his long, braided hair, traditional clothing, and incendiary rhetoric, Russell Means "came to stand for almost everything. . . the authorities feared and resented about AIM," author Peter Matthiessen has written. He is a bit less fearsome in a domestic setting: during the interview, Means played with his 14-month-old son, Tatanka, bathed him, and even searched with him for a tiny, misplaced moccasin.

Russell Means was interviewed at his Pine Ridge home by Montana businessman and writer Larry Dodge.

Reason: You're currently involved with the Miskito Indians in Nicaragua. In what way?

Means: I've made two trips into Nicaragua. One last year and one this year. I went in last November and was only in for two days, and went back in on January 8th of this year.

Reason: What did you find?

Means: The Indian resistance has been going on there for five years—longer than any of the *contras* have been in existence—under the leadership of the organization called Misurasata. Virtually the entire Atlantic coast of Nicaragua, that's all Indian territory. And Creole territory. Creoles are the blacks. Misurasata has allied itself with Creoles. And there are dozens of Ladinos also fighting. A Ladino is a Nicaraguan that is not Indian and not Creole.

Now the first time I went into Nicaragua, in November of last year, because I had no documentation, these leftists said my visit had no credence, and what I was saying hadn't any credence, because the CIA was manipulating the Indians. But that in itself is racism. They're saying that Indian people have no mind of their own, and we can be manipulated by the right and the left. At their whim! That we have no brains!

Now first you have to understand the Miskito-Sumo-Rama Indians of Nicaragua. They are a self-sufficient community, self-sufficient people. They live in their own villages governed by the village leaders, and each village has its council of elders. Their schools are all taught in Miskito. Their books are written in Miskito languages. Historically, they have driven off the Spanish, and they drove off the English from their lands. Even Somoza left them alone.

Self-sufficient people who plant their own food, who don't depend on the monetary system, have a proud history, fish, harvest natural or wild crops, and hunt for a living are not a people who give up their land—for any reason. Understand? Self-sufficient people you don't mess with. Anywhere in the world. Everyone knows this. And every military person will always attempt to ally themselves with self-sufficient people—except when you're an Indian, because

you're such a primitive savage.

Self-sufficient people, independent people...you can't say, "I'm going to free you." You can't say, "You come to my system of government and you'll be free." What are you talking about? I've been free since I've been on this earth! Sandinistas made that mistake.

First of all, they sent in Cuban teenagers to say, "You have to learn Spanish and Spanish only in your schools." So wait a minute, we've got our own Miskito, and we're only going to teach Miskito. That's the first mistake they made. And the second mistake they made was that they took the arms away from the Miskito people. In other words, stating to the Indian people that they don't trust them. And because they couldn't trust them, they destroyed 58 villages along the Rio Coco [the river that forms the northern border]. And then the armed struggle began.

They've been fighting for over five years without any international aid whatsoever from any source. Their arms, ammunition, uniforms, boots—they take them off the Sandinistas themselves. These people are pretty tough. They have two to three thousand warriors inside Nicaragua. Hundreds of Sumos, a couple hundred Ramas, a couple hundred Ladinos, and hundreds of Creoles. Then the rest of them are Miskitos.

Reason: Why did you make your most recent trip in January?

Means: The second time I went in we stayed 30 days. When we went into Nicaragua, we didn't sneak in under the cover of night like thieves. This is Indian country. We went in like *Indians*. In broad daylight, from the ocean. Talk about apprehension! For 14 days, we walked and canoed all over the essential areas of Nicaragua, and we did not worry about any informant. If you're having guerrilla warfare going on, and you're walking around for two solid weeks, without ever worrying about an informant, you would have to conclude that this must be a massive Indian resistance.

We visited with the leaders of 28 villages, and the councils of elders, and we documented the atrocities. Not one village escaped the atrocities in the systematized genocide from the Sandinistas. And it was only because of the strength of the warriors that the atrocities began to cease, but they're still ongoing today.

What the Sandinistas did in virtually every Indian village was to come in and force the adults into the church. And

Non-Indians in this country, you talk to them and they say, "Oh, what happened to you, isn't it a shame. That was our ancestors, not us." Bull! It's happening today, in a more insidious manner.

:y turned that church into a torture chamber, where they would tie their hands behind their backs and force them to lie on the floor of the church face down. From 9 to 19 days, without allowing them to go to the bathroom or eat or drink water. So consequently, many people died.

They raped the women in front of their men. And they forced the leaders to go house-to-house and watch the soldiers rape the women. They took the young girls and made them do beastly acts, and then they went and took the boys, 12 to 16 years of age, to the local schoolhouse, where they burned them alive and machine-gunned them.

Reason: How would you have the United States get involved, or are you asking for the United States to get involved?

Means: Okay, now we both know that the Sandinista government *and* the United States government are denigrating Misurasata and [its leader] Brooklyn Rivera. Why? Because anyone who takes over will have to deal with these self-sufficient Indians. And the Creoles. They all desire self-determination, and they are not fit to participate in a totalitarian state or a state controlled by corporations.

Reason: And the United States?

Means: From the United States. The reason I'm involved is to convince the United States government to ally itself with Misurasata. That means that they would be forced to re-look at the Indian condition of *this* country, and look at us as human beings. And so the future for my child brightens, the future for all Indian children becomes brighter.

Reason: There are people speculating that you are trying to broaden your power base by appearing to be internationally concerned.

Means: The only reason is for the future of our children. The Sandinistas are trying to compress 200 years of US Indian policy into a decade of Nicaraguan.

Vine Deloria, Jr., said it best in his book *Custer Died for Your Sins*, when he said words to this effect: "Until the United States learns to treat its Indian people with justice and fairness, its foreign policy will always be a failure." The Nicaraguan policy is the epitome of that example. What a failure in their foreign policy they are. Philippines, South Korea, Indonesia, you go around,

and you'll see...Cambodia, Laos, Afghanistan. They're beginning to wake up in Afghanistan, and all we're saying is that the freedom fighters *inside* Nicaragua deserve the same consideration that freedom fighters anywhere in the world deserve.

Reason: What is it like being an Indian in America?

Means: You're faced with an institutionalized racism that is absolutely devastating. It's institutionalized from the time that you enter the school system to the end of your life. The very basis of it is that we are still primitive, savage pagans, who have to be eternally taken care of, and we are not worthy to become partners in contemporary life, because we're not smart enough.

Reason: What is the American Indian Movement? What does it want?

Means: What AIM wants is self-determination for our people, and a leave-us-alone policy. We've found the best route towards that is the elimination of the Bureau of Indian Affairs. We are the only people that's governed by a bureau of the federal government. It should be an insult to any decent human being that this country, in this day and age, still has a bureaucracy that governs *a* specific ethnic group per se.

Reason: What kind of political system do you think would or should be adopted among Indian groups that achieve sovereign status as envisioned by AIM? Would it be all the same, or would they...

Means: That's a very difficult question, and that has to be left to each locality as they see fit. Let me put it this way: The Indian people of today are in a period of transition. Fifteen or 16 years ago, Indian people weren't wearing beadwork and didn't have long hair, and they were not wearing any Indian jewelry. In fact, 16 years ago, the only people you saw with Indian jewelry on were rich white people who happened to buy some Navajo and Pueblo turquoise and silver jewelry. But the cultural revolution that we went through in the last decade and a half has brought a new sense of self-dignity and self-pride and therefore a new awareness of what Indian people can do in the contemporary world. Culturally, spiritually, politically, and economically.

Reason: That was my next question. What kind of economic systems do you envision would go with this kind of sovereignty?

Means: In order for our value system to maintain its beauty, it would have to be based upon the individual with concern for the collective welfare and well-being. So in essence, it's a continuation of our ages-old system—individual entrepreneurship based upon the good of all.

Reason: Does the idea of gambling on reservations fit into the picture? I know that has gotten a big start in Southern California and Arizona...

Means: All over the country.

Reason: How do you feel about that, coming from the Sioux reservations?

Means: When we challenge the white man, we like to challenge the white man. Gambling is *our* oldest profession.

Reason: Would you be satisfied with governments at all levels deregulating Indian affairs, abandoning existing distinctions, and treating Indians like any other US citizens?

Means: We are *not* US citizens. There are many, many Indian people who prefer that legal term. In fact, probably the majority of the people who have Indian blood in them would prefer US citizenship. However, traditional Indian people have never accepted US citizenship. We're the only people in the history of modern civilization where citizenship was forced upon us without our consent. We're treated separately, based upon the fact that we're "primitive."

My platform was to get rid of every federal agency and state agency on this reservation and we'll do everything on our own. I mean overnight—there wasn't going to be any gradual transition.

You know, there has only been one other government in modern history that has defined purity of blood as a measure of who you are as an individual—and that was Nazi Germany. And this country defines Indians by blood quantity. You talk to non-Indians in this country, and they say, "Oh, what happened to you, isn't it a shame. That was our ancestors, it wasn't us." Bull! It's happening today, in a much more sophisticated, insidious manner. It's called colonialism, and this country is a—sad to say—master of colonialism.

You take the fishing and hunting rights controversies, where these sportsmen are against the Indians. All of the "rednecks"—and you know, I resent that term, because that is denigrating my color as a red Indian of the Western Hemisphere. They're not rednecks, they're *pinknecks*. One only has to look at their necks to see that they're *pink*. And these pinknecks throughout America are attacking our treaty rights, our hunting and fishing rights, and wanting to make us US citizens. First of all, they have to realize that we live under 5,000 to 6,000 more laws, rules, and regulations than any other person in the United States of America lives under, and they try to say that we're US citizens. We're not US citizens! We're more regulated than any person in the United States.

Reason: Let's change the tack for a minute here. AIM's moment of greatest notoriety came in 1973, when you led the occupation of the town of Wounded Knee. Did anything good come out of Wounded Knee?

Means: Wounded Knee was the catalyst that served, universally, to push the cultural revolution, not only in this country, but also in Canada, and all throughout the hemisphere. The cultural revolution has turned to activism and is a continual search for our rights to self-determination. And Wounded Knee—the good that it has produced for this country and therefore the world—is immeasurable. After Wounded Knee, the international community woke up to the fact that we are alive and well, and still struggling for our rights.

Reason: What do you think a hundred years of welfare and reservations have done to Indian character?

Means: Decimated Indian character. I see Indian people without will. When you have no will, of course, the result is all of the constant horrors of poverty that we suffer from. We are at the bottom rung of every ladder, and any scale of

measurement of poverty. The poorest counties in the United States, the very *poorest* counties, are Indian reservations. Our infant mortality rate in this country is higher than anywhere else in the Western Hemisphere. And that means Guatemala, that means Mexico, that means Brazil, that means every place in the Western Hemisphere.

Reason: Like the rest of us, you have troubled youth.

Means: Oh yes. But the Indian youth are even more troubled. It's been proven in educational study after educational study that Indian youth, in the first and second grades, are scholastically superior to non-Indian youth. I repeat—scholastically *superior* to non-Indian youths. Beginning in the third grade, the scholastic abilities begin going downhill. And it's because of the institutionalized racism against the Indian people. When you're taught that your country was discovered by a white man, when you're taught that your mother and father are pagan savages who scalped and attacked wagon trains, etc., none of it being the truth, of course, your feelings of self-worth and self-dignity suffer greatly.

Reason: And that affects your scholastic achievement.

Means: Oh, definitely. For someone to tell you that Columbus discovered America, when the truth is, he washed up on the beach in the Caribbean. *We* discovered it. And he and his entire crew were suffering from the ills of Vitamin C deficiency, scurvy and what have you, and we nursed him back to health. And he wasn't looking for a country called India, because there was no country called India in 1492. What is now called India was then referred to as Hindustan. The other thing is, he spoke Italian, and Indian is a bastardization of a colloquial word in Italian meaning "Indio," *Dio* in Italian meaning "God," and *Indio* meaning "in with God." He wrote in his ship's log, "Indios...are people in with God."

Now, our treatment as human beings would be vastly different if, instead of bastardizing the Italian word *Indio* to *Indian* in the English language, they really did the correct translation and called us "in with God"—"Hey, there goes 'in with God.' "

Reason: When you were young, did you play cowboys and Indians?

Means: Of course. When we played cowboys and Indians in Southern California, my brother and I, we always played the Indians, and we always won. You see, when we'd go to movies and see the cowboys-and-Indians movies, we always felt bad. Whenever you heard the classic bugle sound, and the cowboy would charge at the end of the movie and wipe out the Indians with one shot—John Wayne would be the winner—we really felt bad, and so we'd go home right after the movie and we'd play cowboys and Indians. And we would always win. We had all of the white kids in the neighborhood wanting to be Indians, because they didn't want to be on the losing side.

The Sandinistas are trying to compress 200 years of US Indian policy into a decade of Nicaraguan.

Reason: Is there any realistic chance that the US government will accede to AIM's demands?

Means: Well, first of all understand that the American Indian Movement is not advocating anything new. All we are doing, in the best way that we can, is to reiterate what our ancestors and elders say. We managed to live in a country that is not overpopulated, didn't have prisons, didn't have locks or keys—it might be called primitive, but we didn't have any mortgages to worry about or Visa cards or American Express. It might be called primitive, but we settled our differences without the shedding of much blood. It might be called primitive, but we didn't draw lines on a piece of paper and say that you cannot cross those lines. If we had, of course, the Europeans would still be suffering in an overpopulated Europe.

Reason: Well, at this point, do you expect to get anything out of the government? You suggested, for example, sovereignty. Do you think you'll get sovereignty?

Means: The only way you'll get sovereignty is by implementing it yourself. And by living by the values that our people have always lived by. We've never asked for the government to do anything. All we said is that we are human beings and therefore we are worthy of partnerships with all the other sacred colors of the human race. And until that world view becomes reality, we are always going to be an oppressed people. Do you realize that we're the only color of the human race that's not allowed to participate at the table of the family of nations? The black, brown, white, and yellow all participate in world affairs on an equitable basis. Only the red are forbidden. That fact should incense any decent-thinking man. And it's not even given a thought.

Reason: Is it racism, or is it the fact that in most cases, the red nations are subjugated within other nations which presume to represent them?

Means: Let's deal with that fact of representation. Look at you, the non-Indian. You have local representation at the municipal level, you have area-wide representation at the county level, you have regional representation at the state level, and you have national representation at the federal level. Look at us Indians. Who represents us? The only representation in this country that we have is in the Department of Interior, where gravel is given more consideration than we are because they see immediate economic benefits. Now I want to point out how the Southwest and other areas of the country have seen economic value in the Indian culture.

Reason: Are you talking tourism and things like that?

Means: No, I'm not talking about tourism—that's another insult. We're the only thing in the United States of America that's considered a tourist attraction, and we're human beings for Christ's sake. We're not dressed up in costumes for any stage show or frontier show. We're everyday living, breathing people who live and work to the best of our abilities—when we're allowed to—and yet we're considered tourist attractions. I mean, people come to a reservation not to look at the badlands, they come to look at living, breathing human beings and either marvel at their feathers or the poverty-stricken, backward way of life, as they see it.

Reason: Well, taking your own operation, your own bid to do something politically, you've been kept off the ballot

in your recent bid for the presidency of the Oglala Sioux Nation by your opponents, who insist that convicted felons [Means was convicted in connection with Wounded Knee] can't run.

Means: Well, you've had felons in the White House. The real reason I couldn't run is because I was running on the independence ticket. My platform was to get rid of every federal agency and state agency on this reservation and we'll do everything on our own. And I mean overnight—there wasn't going to be any gradual transition. And we were going to look to the international community for assistance. I said assistance, not aid. There's a difference in asking for a hand rather than a handout. And that's what the Indian people and the American Indian Movement are essentially after—a hand, not a handout. I know that's an old saying, but it's very apropos here.

So consequently, it just scared the living daylights out of the United States government and these colonized Indians, and they wouldn't let me run. That's what government will do to you when they make you wards, afraid to stand up on your own two feet, afraid to stand up on your hind legs.

Reason: The Indian rights movement has largely been ignored by the American left. Why?

Means: The political left in this country is really no different than any other segment of industrial society, in that everyone has their favorite Indians.

Reason: You mean tribes, or types of Indians?

Means: It has nothing to do with tribes. It is their *favorite* Indians. Everyone has their favorite Indians so they can utilize them and exploit them. Missionaries, federal government, Republicans, Democrats, leftists, conservatives. You name it, everyone is going to have their favorite Indians. Every time they meet someone that is independent and sovereign unto themselves, they denigrate them and name-call. The left in this country is the worst example of that.

Now, I've found something peculiar. Maybe it's too soon to judge, but I've found that the sophisticated people of the world, the ones who are comfortable with themselves as human beings and are demonstrating their own sovereignty and belief in it, are the ones who respect Indian people—actual Indian people like our ancestors. As Indians, we have our own agenda, and it's not left or right. It is Indian. And as long as you respect us, we're going to respect you. And the ones

We're considered a tourist attraction, and we're human beings for Christ's sake.

that I have found, curiously enough, that have given us the most respect, have been the conservatives. They might not like us, but they respect us, because we stand up for our own agenda. The left hates that. If you're going to stand up for your agenda, they will start name-calling.

Reason: You recently appeared on stage with Muslim dissident leader Louis Farrakhan in New York City. Do you endorse Farrakhan's message?

Means: That's a loaded question. What is his message to you? I hear completely different things from him than do Zionists, for example. So do responsible Jewish people who aren't alarmed at this man. At any rate, I have hung around with many elements of the non-Indian fringe. From Farrakhan to Larry Flynt the pornographer...

Reason: To certain Libyans...

Means: To Qaddafi, to the World Peace Council, to a myriad amount of the fringe elements of contemporary industrial society. Now hanging around the fringes, as the American Indian Movement leader, I have been searching everywhere to find a friend for American Indian people. At first I thought it was the Christians in America. The liberal Christians. Then I found that not to be the case. Then I thought it was the black politicians. Then I found that not to be the case. We went to the peace movement. And we found that we were not welcome. Then we went to the white left. And more so than any other group, we were used by the leftists. All under false pretenses. All for their benefits. Totally for their agenda.

Because of my experience in the '70s, the conservatives were calling me a lackey for the Communists. In 1980, I realized that the leftists and Marxists of industrial society were more efficient racists. I then went to the fringe element because I felt that the conservatives didn't ever want me, because they had been saying that I was a lackey for the Communists. Of course, now I am considered a lackey for the CIA by the leftists. Maybe by the 1990s, I'll be considered a lackey for the Indians. That is my hope, because I consider myself an American Indian patriot. That is all I want and all I hope to be.

The point is, at Madison Square Garden I got up to give a speech before Farrakhan came on. And I challenged his organization to become partners with Indian people on the Indian land—because he was espousing rhetoric to that effect, and I felt that he should live up to some of his rhetoric. At that moment I was dropped, and he went to his favorite Indians that he has dress up and sit on a stage for him.

Reason: Do you think...

Means: I've always felt that whatever the non-Indian community thinks of me, or says about me, isn't a priority in my life. What is important is the well-being of the people. And if I can improve, in any way, their condition in life, then I'll be able to stand the heat.

And if I happen to be the center of controversy, so be it, as long as the issues of Indian people come down. There are people on the left who will say that I will go so far as to get wounded to get publicity. Such as I planned my trip to Nicaragua to get wounded in the bombing attack. Thank God the Sandinistas went along with my plan! I was worried there for a while, they wouldn't bomb the village that I was in. They'd say, "No, Russ, you're going to use it for your own publicity purposes." But I was able to dupe the Sandinistas into bombing us.

Reason: That was a good piece of work. Two final questions. Do you have any heroes?

Means: Only my ancestors.

Reason: Are you optimistic about the future?

Means: Of course. Indian people are always optimistic. The world is a place of optimism. We know that life will always flourish. Our question is, is the human species going to be part of that flourishing? ◻

What's good for the workers is good for the bosses.

An ESOP Fable

La Perla is a 9,000-acre coffee and cardamom plantation in the northern Guatemalan province of Quiché, a rebel stronghold. For more than a decade, leftist guerrillas have been attacking both farm workers and farm owners, destroying crops, buildings, and lives.

Enrique Arenas runs La Perla. Ten years ago, his father was killed by the guerrillas. Other farm owners in the area were attacked; almost all of them abandoned their farms. In 1979, due to the frequency of rebel attacks, the banks refused to grant the Arenas family further credit. Still they stayed, opting in 1981 for a radical path—the family set up an employee stock ownership plan (ESOP).

The family set up a trust in which they allocated 40 percent of the stock to a workers' association. The stock will be paid for out of the future profits of the farm, although the employee association immediately gained full voting rights. Of the estate's 500 workers, a full 97 percent chose to stay at La Perla. Some of the handful who left have since returned.

Although the estate hadn't shown a profit in 10 years, the first harvest under the plan yielded an increase of more than 100 percent—this despite the lack of extra inputs of such goods as fertilizer and insecticides.

The losers in all this have been the insurgents. In March 1985, 120 rebels attacked the estate. This time, the guerrillas were driven off the farm by 200 armed workers, leaving several dead on both sides.

In the wake of this attack, the estate's 300 unarmed worker-owners petitioned the Arenas family for additional rifles to defend against future attacks, volunteering to help pay for the guns through a payroll-deduction plan. As one of the

by Robert K. Rauth, Jr.

TIM TEEBKEN

founders of the plan observed: "There is no greater significance to the concept of defending the free-enterprise system than a worker laying down his life to defend the company in which he is a co-owner."

Some might wonder why the Arenas family was willing to give up 40 percent of their farm, but the beauty of the plan is that it helps both workers and landowners. Workers get voting rights and 40 percent of the profits. As co-owners, the workers protect the Arenas family's property against both rebels and possible future land reform of the collectivist variety, as is so often imposed in Third World countries. Mr. Arenas, for one, believes that his family "will gain more with 60 percent than with 100 percent."

It is ironic that workers are becoming co-owners under capitalism, not communism. In the United States, ESOPs have increased worker efficiency and profits and improved the work environment. In Central America, they may be the only way out of the region's economic and political morass.

Since La Perla became an ESOP, 30 other companies in Guatemala have done likewise under the "Solidarity Plan," which is based on the "Solidarity Movement" in Costa Rica. The Costa Rican program was instituted in 1948 and has been a smashing success: over 700 companies and 120,000 employees (42 percent of the urban work force) now participate in the Costa Rican plan.

Former Costa Rican President Luis Alberto Monge, an ex-union leader, once observed: "The Solidarity Movement has already demonstrated with concrete action and progress its efficiency in promoting the general welfare of the working class and their consistency and determination toward building a more just and prosperous Costa Rica.... The Solidarity Movement has taught us all that the revolutionary goals of protecting individual liberty while striving for the common good need not exclude one at the price of the other.... Solidarity offers a way to obtain both through peaceful means rather than through armed insurrection."

ESOPs' rise to prominence could not have come at a better time. Economists of all political persuasions have undergone a humbling experience in Central America. Leftists generally believe that political unrest is fed by poverty—which, in agricultural societies, is a result of landlessness. Within this framework, leftists in Central America have naturally called for land reform. But as David Luft of the US State Department notes, under land reform, "everyone is worse off."

In El Salvador, for example, the original landowners were compensated with long-term bonds that are now trading for only 50 percent of their face value. The new landholders have not been given titles to the land, and they cannot sell the land for 30 years. Land reform seems to have contributed to the decline in production of such vital crops as coffee, sugar, and cotton.

Land reform in southern Guatemala has been equally unsuccessful. The new landholders promptly resold their land to a few men, creating a situation similar to that of the pre-reform period.

Free-market economists, on the other hand, have concluded that Central America's economic troubles stem from excessive government control. They suggest that governments sell off state-owned enterprises to private concerns.

Unfortunately, this approach is sometimes unrealistic. Who wants to buy a company that continuously loses money and owes millions of dollars to banks?

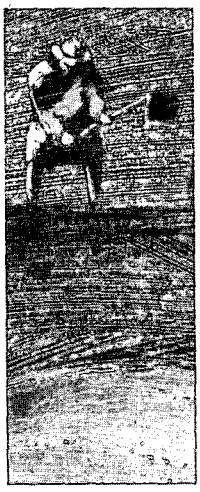
Privatization is also difficult for political reasons. J. William Middendorf II, former US Ambassador to the Organization of American States, points out, "There are still many in Latin America who would view selling off parastatals [government-owned firms] to 'transnationals' in the same way as they view foreign direct investment—selling off their 'national patrimony.' "

These profound difficulties have led many observers to write off Central America as an economic basket case, doomed to poverty, war, and communism. Yet Mr. Arenas and his co-owners at La Perla have demonstrated that alternatives to that bleak future do exist. Employee stock ownership plans have worked elsewhere—witness the approximately 8,000 corporations in America organized as ESOPs. Foremost among them are People Express, Lowe's (hardware) Stores, and Weirton Steel.

Employee-owned firms have consistently experienced higher productivity growth, greater resilience during recessions, higher returns on investment, and more job creation than similar firms that are not employee-owned. These companies also have fewer problems with absenteeism, theft, and labor relations.

President Reagan has called for "developing countries to experiment with the growing variety of arrangements for profit-sharing and expanded capital ownership that can bring economic betterment to their people." And some Democrats and Republicans agree. Third World ESOPs are supported by congressional conservatives such as Paul Laxalt and Phil Crane as well as liberals like Michael Barnes and Christopher Dodd. Rep. Barnes has written, "I think the President is absolutely correct.... The Employee Stock Ownership Plan could help spearhead a restructuring of development processes in Central America and the Caribbean."

Employee-owned firms are a revolutionary approach, but the Third World requires drastic measures to improve its many stagnant economies. Socialism and state capitalism have been tried and have failed; it's time to try real capitalism. And the best means of doing so, in the words of one analyst, "is not to make enemies of the owners but to make owners out of the nonowners." ◻



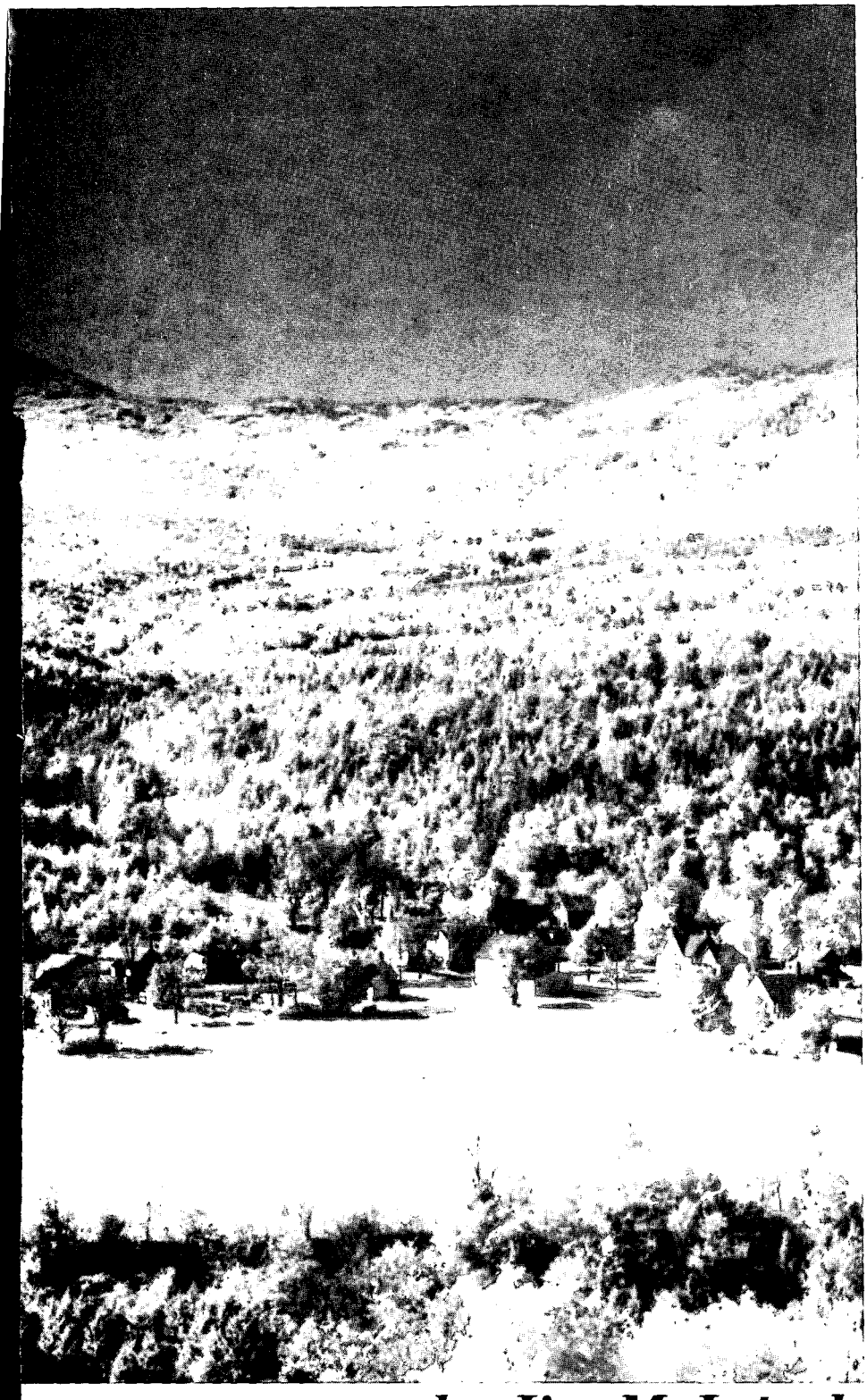
The best hope for real capitalism in Central America "is not to make enemies of the owners but to make owners out of the nonowners."

Robert K. Rauth, Jr., is a student at the American Graduate School of International Management in Glendale, Arizona.

Green Mountain Blues

VERMONT TRAVEL DIVISION

Forget everything you think you know about Vermont. Forget about Calvin



Coolidge and Ethan Allen—they're dead. Forget maple syrup—cannabis is a bigger cash crop. Forget people outnumbered by cows—the latter have been branded on the face and slaughtered.

Vermont has been transformed from a stronghold of rock-ribbed Republican farmers to a playpen of gentrified utopian liberals. Can the trend be reversed? This year's elections offer little hope.

COUNTRY ROADS

"I don't think we're infringing upon people's freedoms. I'd rather do too much for someone than too little."

—Ralph Wright (D-Bennington), Speaker of the Vermont House, February 1986, commenting on bills mandating seatbelts, banning happy hours, restricting smoking, and raising the drinking age

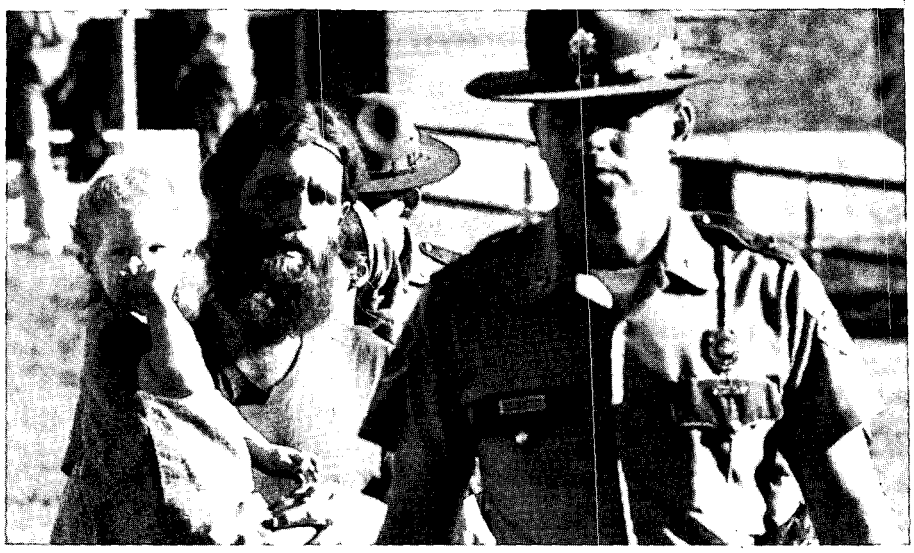
by Jim McIntosh

They came on Friday June 22, 1984, at 6:24 A.M. when the children were still in their pajamas. Watched by 50 social workers from Vermont's Department of Human Services, 90 state troopers knocked on the doors of 20 houses in the village of Island Pond (pop. 1,200). The troopers were armed and wore bullet-proof vests.

Bearing search warrants signed by District Court Judge Joseph Wolchik, the police entered the homes. They encountered no resistance. The police ordered 112 children and 111 adults to get dressed, and then led them out into the street where four buses and four vans were waiting. The adults carried bibles.

"I'm confused about this illegal thing being done," said one man as he boarded a bus. "May the Lord be glorified in this."

The buses rolled out of town, heading northwest . . .



TOBY TALBOT

"I'M CONFUSED ABOUT THIS ILLEGAL THING BEING DONE," SAID ONE MAN AS HE BOARDED A BUS. "MAY THE LORD BE GLORIFIED IN THIS."

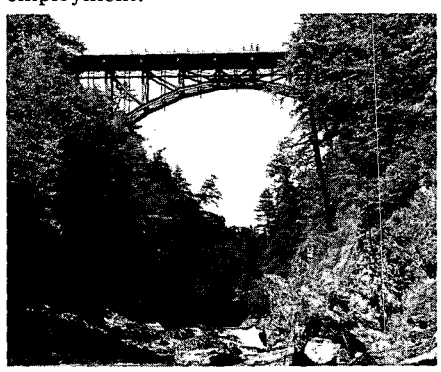
When Alexandr Solzhenitsyn left Zurich for Cavendish 10 years ago, he was drawn not by Vermont's politics, people, or culture but by the state's climate, its solitude, and the Russian library at Norwich University. Most importantly, Vermont's landscape reminded him of Mother Russia.

There was also a considerable body of evidence to suggest that Vermont was far less totalitarian than most of the Eastern Bloc. And, while it is true that Solzhenitsyn lives as a virtual recluse on a 50-acre estate behind a remote-controlled gate with video surveillance, he probably does not fear the attention of Vermont authorities. Actually, he ignores the politics of his adopted state and simply appreciates its physical beauty.

Vermont's landscape is a restful, 19th-century panorama of rolling hills, of primitive stone walls and undammed streams, of maples and conifers, of tiny farms and quaint villages, and of... silence. Very picturesque—but very Russian.

Officials from *Pravda* have lauded the resemblance of Vermont's hills to the western Urals. When Soviet citizens visit their Vermont "sister cities"—which they do in droves every summer—their favorite stop is the Moscow (Vt.) country store. They are photographed beneath the flag, which features a hammer but no sickle. These pictures appear in *Vermont Life*, the government-published quarterly that employs 175 part-time freelancers and 12 full-time state officials. Like *Pravda*, *Vermont Life* carries no private advertising.

Only 530,000 people live in the Green Mountain State, and sometimes it seems like most of them work for the government. Actually, Vermont has the equivalent of only 10,000 full-time state employees, or only 198 for every 10,000 citizens. That is a lot less than in a people's republic, but more than in most states. The US average is a mere 135. Neighboring New Hampshire has only 157 per 10,000, but the accepted wisdom in Vermont is that other states, especially contiguous New Hampshire, have been "spoiled" by rapacious capitalism, commercial development, and booming economies that prevent full public-sector employment.



VERMONT TRAVEL DIVISION

"ECOLOGY-WISE, THEY KEEP THINGS UP PRETTY GOOD."

This impression of spoilage has not prevented Vermonters from working in New Hampshire, however. Indeed, many Vermont border towns are mere bedroom communities to industries in Massachusetts, New York, and New Hampshire.

Nor is the image of spoilage entirely based in reality. For instance, only 76 percent of Vermont's land area is forested, while New Hampshire's is 87 percent forested. But Vermont has got the image. It's got the cosmetics: "It's a pretty state. Ecology-wise, they keep things up pretty good," Joel Nagler told the *Burlington Free Press* recently. He owns a $304,000 condominium in Vermont. "I'm for a strong ecology. I think that's what separates it from New Hampshire. There's a lot of places there that are junky or honky tonk."

Mr. Nagler makes his living in Edison, New Jersey, where he is vice-president for a paper manufacturing company.

The state's environmentalists guard Vermont's pristine image like eunuchs guarding a prized virgin. They have long cast Vermont's ski areas as lechers in a morality play that has thrilled citizens for at least two decades. Meanwhile, the number of ski areas has actually declined from 81 to 47. The surviving areas seem fairly inconspicuous; they account for less than 1 percent of the state's land area. Truth to tell, for mile after postcard-perfect mile, Vermont's country roads are nearly bare of commerce, industry, or development.

This sterility is deliberate—a contrivance of government policy that zealously promotes "a strong ecology" at

almost any cost. Take the absence of roadside advertising.

A 1968 "beautification" law bans all roadside signs and strictly regulates the size, shape, and number of on-premise signs, even on the most minor roads. The law is so strictly observed that visiting motorists seldom know which town they are in because town officials aren't sure whether the law allows them to erect boundary markers. In April 1985, after the state's Travel Director had become hopelessly lost in the remote township of Albany, the state sign bureaucrats sent letters to the towns assuring them that most such boundary signs are okay.

Two dozen towns responded with cautious letters requesting more information.

Some northern New England towns survive as feisty, frugal, self-governing pockets of Yankee independence. Vermont towns are one-dimensional pastoral tableaus. If you're looking for government that is close to the people, you'd better bypass Vermont. On the other hand, if you like centralized state government infused with utopian ideals and the might to implement them at any cost, welcome to Vermont.

VERMONT TRAVEL DIVISION

BUREAUCRATS GUARD VERMONT'S PRISTINE IMAGE LIKE EUNUCHS GUARDING A PRIZED VIRGIN.

LOSIN' IT

"God damn your Governor, your Laws, your King, Council and Assembly!"

—Ethan Allen, Green Mountain Boy, 1771, to the officials of New York

"Vermont emphasizes state government; New Hampshire emphasizes the township," James Ring Adams observed in his 1984 book, *Secrets of the Tax Revolt.* In examining the contrasts between the two oft-contentious neighbors, he mused: "It is tempting to say that the memory of winning independence has led Vermont to maintain a tradition of centralized state services."

It's true that Vermont's independence did not come easy. When the 13 colonies commenced the American Revolution, Vermont was a disputed territory claimed by New York and New Hampshire. In 1777, a colorful band of hard-drinking, freedom-loving land speculators declared Vermont an independent republic. The Green Mountain Boys wrote a constitution that was truly revolutionary in its prohibition of slavery—a continuing source of pride to subsequent generations of Vermonters—but the Continental Congress refused to recognize "the pretended state of Vermont."

Although the Republic was home to some Revolutionary war heroes—notably the colorful and controversial Ethan Allen—it was also haven to deserters from both the Continental and British armies, and it served as a sanctuary to tax dodgers of all stripes. Fed up with the war and the gentlemen of the Congress ("viperous skunks," Allen called them), the Vermonters explored a separate peace with Great Britain. Only the defeat of Cornwallis changed their minds, and Vermont finally entered the union in 1791 as the 14th state.

But, while Vermont's anomalous nascence receives a nod from political scientists, they rank the events of 1927 as more critical in tilting the balance of power from the towns toward the state. That was the year of the Great Flood, Vermont's worst natural disaster.

The flood hit on November 3, claiming the lieutenant governor, 59 honest citizens, innumerable cows, and, worst of all, hundreds of miles of roads and most of the state's bridges. The economic plight of Vermont's 246 towns was dire indeed; they had owned the vanished roads and bridges, and there was no way they could afford the necessary repairs.

The towns agreed to let the state repair the roads—and take permanent ownership of same. This transfer of responsibility to Montpelier was not without its opponents, but they were comforted by the fact that the state government was controlled by small-town agrarian Republicans, a frugal and unadventurous club best typified by incumbent President Calvin Coolidge, a Vermont native himself. Four years later, Vermont adopted a state income tax, and the skeptics said, "We told you so."

The next milestone in the decline of the Vermont town was the 1965 reapportionment of the Vermont House. The lower chamber shrunk from 246 seats—one per town—to 150 seats distributed by population density, spelling the end of the 180-year legislative dominance enjoyed by small towns and Grangers.

Simultaneously, a new freshet percolated to the surface of the public-policy agenda: a fatal fascination with the possibilities of state-wide environmental and social engineering.

An hour later, the buses carrying the members of the Northeast Kingdom Community Church reached the city armory in Newport, Vermont. The children were taken from the buses and into the armory gymnasium.

Each child was photographed three times. The parents, some of whom refused to give their names to state officials, were told that the children would be released only if they "cooperated."

Meanwhile, defense lawyers had begun to congregate at the county courthouse across the street from the armory. The state's attorney informed them that many allegations of child abuse had been received by his office.

For 18 months, the investigation of these allegations by social workers and law enforcement officials had been stymied by the sect's secretive practices. It was impossible to obtain data because church doctrine did not permit members to enroll their children in public schools. Neither did the church officially register births or deaths among its membership.

The children were being detained, the attorney said, "as evidence ..."

"If the spirit of liberty should vanish in other parts of the Union and support of our institutions should vanish, it could be replenished by the generous store held by the people of this brave little state of Vermont."

—Calvin Coolidge, 1928

When John McClaughry moved to Vermont in 1963, he sought not to change it but to fit into it. A self-described "libertarian agrarian distributist Jeffersonian Republican decentralist," McClaughry has been active in Vermont state politics for more than 20 years. In 1981 he was a senior policy advisor in the Reagan White House. He is president of the Institute for Liberty and Community, a public-policy "think tank" headquartered in a log cabin on a dirt road in the tiny Northeast Kingdom town of Kirby (pop. 300).

McClaughry has observed, analyzed, and written about the decline of Vermont from "a conservative rural backwater into probably the most 'progressive' of the 50 states." His analysis stresses the role of Philip Hoff, who was elected governor in 1962—the first Democratic governor of Vermont since 1854. Hoff was a Massachusetts native, a crony of the Kennedy clan, and, with his Camelot connections, was able to obtain unprecedented federal aid for Vermont during the Great Society era. Social services flourished during Hoff's six-year administration, in particular federally subsidized, state-administered grant programs.

McClaughry ranks the demise of the traditional town-operated Overseer of the Poor system in the 1960s right up there with the Great Flood in the annals of Vermont disasters: "Once the state bureaucrats got in charge of the welfare system, their incentive was to maximize the number of people in the system as fast as they could get the legislature to vote more staff to handle them. We had a massive expansion of caseloads and bureaucracy."

But by the end of the decade, the federal matching funds had diminished, as had Phil Hoff's mandate. They left behind a bloated welfare bureaucracy and a $6-million deficit that served as a convenient excuse to impose a state sales tax in 1970.

As if Hoff had not wrought enough havoc, the extension of the interstate highways into the Green Mountains was soon introducing unprecedented numbers of non-Vermonters to its bucolic landscape. The urban crises of the late 1960s had made the state appear very attractive to East Coast megalopolites. And, although McClaughry is reluctant to stress the point, he notes that Vermont had (and still has) the smallest percentage of blacks of the 50 states. There was motive, means, and opportunity:

"A realtor told me," says McClaughry, "that every time there was a riot on the front page of the paper in Boston or Washington or New York, he had a dozen calls in the next three days from people wanting to buy land in Vermont. We had a massive migration of upper-middle-class professionals. But white flight only accelerated a trend that was already manifest.

"There was good times and big money—inflation, second-home purchasing, interstate access—all those things came together to make Vermont a new tourist frontier."

Some of the tourists stayed. Their baggage included some advanced notions about zoning, social justice, and most important, "ecology."

"These upper-crust liberals were horrified by the smokestacks of Hoboken and Somerville and Yonkers, and they were going to come up here to Arcadia and live the clean, wholesome life. They were going to save Vermont from what the rest of the country had degenerated into thanks to the defiling hand of man.

"They were susceptible to every liberal fetish, and they were articulate and media-oriented. They created the agenda for change. Their game was Act 250."

In its original 1970 form, Act 250 was a somewhat reasonable, if complicated, environmental law. It enjoyed broad support. The measure was favored by the tourism industry, which recognized that protecting the Vermont environment would ensure the state's continuing appeal. But according to McClaughry, certain provisions of the act were not implemented as many lawmakers had expected, and in particular, the law's permit provision became a vehicle for a different constituency with different values, different intentions, and a wholly different vision of Vermont's economic future.

In brief, the process was hijacked by anti-business environmental utopians. By the mid-1970s, Act 250 had become an instrument that McClaughry says "scared the pants off anyone interested in economic development, growth, or even private property ownership."

In February 1986, Vermont state officials confessed to the *Burlington Free Press* that before developing land in Vermont, a businessman could "conceivably" require approval from 28 state, regional, and local boards and would "easily" be required to obtain 50 or 60 separate permits. Ralph DesLauriers, president of Bolton Valley Ski Resort, describes hiring 15 separate consultants to prepare applications for the various permits.

"Vermont is so arbitrary," he said. "I have to tell you, as a developer, I don't know what the rules are anymore.... They want infinitely more information. The problem is, they can demand anything."

Vermont has become a lawyers' paradise. During the 1970s the rate of admission to the Vermont bar exceeded that of

JEFFERSONIAN JOHN MCCLAUGHRY: KEEPER OF THE TRADITIONAL YANKEE FLAME.

Maine and New Hampshire, and soon Vermont was estimated to have more lawyers per capita than any comparable rural state. By 1980 Vermont boasted 1,095 members of the bar—one lawyer

VERMONT TRAVEL DIVISION

TOBY TALBOT

GOVERNOR "STRADDLIN' MADELEINE" KUNIN'S REELECTION ISN'T GOING TO BE ANY PICNIC.

for every 467 persons, far more than Maine (one per 545) and New Hampshire (one per 549.)

By 1982, a court case was filed for every fourth Vermont citizen. In New Hampshire the statistic was one for every 39th citizen. In Maine, every 66th.

Vermont's legal industry is one of the few sectors of the economy that seems to have profited from the state's enthusiastic meddling with people's property. It might be the only one.

Probably the toughest job in Montpelier today is lobbying for Vermont business. Andy Crossman, who represents the Associated Industries of Vermont, walks a thin line. Without scaring prospective businesses away from Vermont, the association must holler bloody murder whenever the government becomes blatantly anti-business.

"I tell firms interested in moving to Vermont to look at other things *besides* Vermont's government...

"Vermont has a real belief in education, for instance. Productivity per worker in Vermont is tied for number one in the country. Our quality of life is conducive to many industries, especially high-tech industries. Burlington, with its university population and spin-offs from university research, is a potential high-tech incubator area."

Crossman adds that Vermont has a low percentage of unionized shops and generally enjoys good labor-management relations. While admitting that Vermont is one of only four states in the nation with a minimum wage higher than the federal minimum (10 cents higher), he stresses that minimum-wage jobs make up a very small portion of Vermont employment. He also claims that Vermont business is no longer in decline, but regarding the optimistic projections touted by state development officials, Crossman sighs: "I question the numbers, especially the unemployment statistics. Certain niche industries are doing well. The rest are flatter than a pancake."

The jobless rate in 1985 was 4.8 percent. But New Hampshire and Massachusetts, both next door, had lower rates.

LOSING GROUND, GREEN MOUNTAIN-STYLE

Vermonters have come to detest statistical comparisons with other states. They pay higher state taxes than the citizens of New Hampshire and Maine. They spend more per capita on state services. Unable to deny these data, they have come to embrace them—as evidence of Vermont's superior virtue.

"Quality of life," their argument goes, "cannot be quantified. It's something *spiritual*. How can you put a price on such things?"

The state's opinion leaders—many of them recent immigrants to Vermont—seem to regard high taxes and costly state services as penance for citizenship. To demand government accountability for costs and benefits is heretical.

A medical doctor who lives in Norwich, Vermont, but who works in contiguous Hanover, New Hampshire, recently explained to a *Boston Globe* reporter why he does not live in the Granite State. He said: "You can have a cleaner conscience living in Vermont."

The Vermont versus New Hampshire tax-for-services debate was exhaustively explored in 1976 by Dartmouth economist Colin D. Campbell. The Campbell Report demonstrated that Vermont's greater tax burden and hordes of public employees had not resulted in better services to its citizens. Yet, 10 years later, Vermont's privileged elite persists in delusions of moral superiority.

Liberal guilt is a funny thing.

After being photographed, the first group of children were taken across the street to the courthouse. Their case went before District Court Judge Frank Mahady at 1:30 P.M.

The Vermont state's attorney requested a blanket order of detention to hold the children for 72 hours. He explained that state officials had made arrangements to confine the children in comfortable quarters at Burke Mountain Ski Area, a nearby resort. There, doctors and psychologists would examine them for signs of abuse and neglect.

Police disclosed that a search of the Island Pond homes had yielded paddles and sticks that could have been used to assault the children. Also found were some articles that might have been employed in the illegal practice of medicine.

Outside the courthouse, a local attorney compared the raid to "a Nazi pogrom in Poland," adding, "You're seeing child abuse here today in its worst form."

Vermonters pay high taxes, no question. But they also receive great gobs of federal money—more dollars per capita than citizens of any other New England state. Vermont ranks fifth in the nation in per capita federal handouts: $625 per person. The national average is $398.

The benefits of this largess should be splendidly evident. The taxpayers of the nation should appreciate what their dollars have achieved in Vermont, where levels of spending for welfare, education, arts, and all manner of "progressive"

social programs exceed that of its neighbors. Let's examine the return from our investment.

Vermont's crime statistics are not too great. In total offenses known to police, Vermont's population-adjusted rate is 12.5 percent higher than Maine's and 26 percent higher than New Hampshire's. Vermont's murder rate is more than double New Hampshire's and significantly exceeds Maine's. In burglaries, larcenies, and thefts, Vermont leads northern New England.

Vermont's suicide rate of 16 per 100,000 exceeds the national average of 12.2 and far exceeds the New England average of 9.9. For white males in a recent four-year period, the Vermont rate was 26 per 100,000, compared to a national figure of 19. Vermont has the fourth-highest rate of teenage pregnancy in the nation. Its rate of motor-vehicle deaths is the highest in New England and slightly exceeds the national rate. In fact, in all accidental deaths, Vermont's rate surpasses every New England state and also the national rate.

And every two years, this state, with immense drama, elects a governor who, without fail, endorses the prevailing orthodoxy and promises to spend the state out of its difficulties.

"Vermont's politics, like politics everywhere, is becoming like soap opera. Nearly everybody in it is rich and pretty and has lots of time on their hands."

—Frank Bryan, author of *Yankee Politics in Rural New England* (1974), *Politics in the Rural States* (1981), and *Real Vermonters Don't Milk Goats* (1983), January 1984, to the *Burlington Free Press*

According to close observers and some stunned participants, politics in Montpelier has changed. The courtly and genial traditions of the Vermont legislature have been swept aside. Push comes to shove very quickly. Business lobbyist Andy Crossman observes that the climate has become very partisan.

"They play hardball all the time now. There has been a general trend in the make-up of the legislature, with an increasing number of lawyers, teachers, et cetera, and fewer farmers and small businesspeople. But it's not so much the change in membership itself as in the leadership, I believe. Traditionally, the speaker was relatively nonpartisan. Ralph Wright—who is originally from Tip O'Neill's district in Massachusetts, incidentally—is partly to blame. Ralph is apt to say: 'You will accept this or nothing else.'"

TOBY TALBOT

SOCIALIST BERNIE SANDERS: TODAY BURLINGTON, TOMORROW VERMONT?

Although Republicans hold a numerical majority in the House, Democrat Wright was elected speaker. The Senate has a Democratic majority. There was a great deal of floor debate this year, much of it acrimonious and divisive. Rhetoric became very heated. Committee work was weak. Few bills reached the floor with a committee consensus. To make things worse, this is a gubernatorial election year.

Vermont's most colorful candidate for governor is probably the three-term socialist mayor of Burlington, Bernard Sanders. A Brooklyn native who leads the state's alabaster "Rainbow Coalition," Sanders used to advocate that government take over the state's banks and utilities and that all personal income in excess of $40,000 be confiscated. But he has mellowed. Now he wants to tax Burlington's hospitals and colleges, only the state legislature won't let him. He did manage to impose a citywide "gross receipts tax," but business owners cannot figure out how to calculate it.

"Burlington," quips Vermont writer Frank Bryan, "is a large city which has the advantage of being close to the Vermont border."

The city's lake front is blighted, and all efforts to develop it have failed because the Sanders administration does not inspire the confidence of businesses—for which he blames the businesses. A political opponent has observed that the mayor is "a paranoid with a martyr complex." This seems a fair description of Sanders's propensity to rationalize his difficulties. He seems to suggest that the mounting failures of Burlington's private sector are solely contrived to make him look bad.

But Bernie is a charmer, and the citizens of "Sandersgrad" love him for his lofty and humanitarian intentions and his chic. His constituents (dubbed "Sanderistas") applaud his trips to Nicaragua and kid him about a rumored side-trip to Hugh Hefner's Playboy Mansion during his recent visit to Berkeley, California. He is running for governor as an independent.

Is Bernie, age 45, a lightweight? Not according to Frank Romano, who just finished serving two terms as mayor of Montpelier. "Too many people in Vermont are not taking Mayor Sanders seriously," he says. "Bernie is a very aggressive, very intelligent young man." Romano figures that Sanders has a large constituency in Vermont—"the academic

"I had my first child and stopped working. Then I did a lot of volunteer things in the community, got a master's degree between children, and did some free-lance writing. My husband went to Harvard for two years, and I did some part-time public relations work at Boston University."

—Governor Madeleine Kunin, February 1985, to the *Washington Post*

world—professors and students—and, as he defines it, 'the underprivileged.'

"So to those who say that Bernie Sanders could not win a state-wide election, I say, 'You're kidding yourself.' I think he certainly could win a state-wide election."

A final ironic note on Sanders: he is tireless in calling for less state interference in local government. His motives are suspect, but his message is sweet and clear. To the chagrin of many free-market, small-government advocates, their best issue has been commandeered by the state's foremost socialist.

By 9:30 P.M., Judge Mahady had dismissed 40 cases, continued the rest, and imposed a gag order on everybody involved. In a tremendous blow to the state's governor and attorney general, he refused to issue the blanket order of detention. By 11:45 P.M., the last of the children boarded a bus to return to Island Pond.

Not one case of child abuse or neglect was uncovered in the 1984 raid on the Northeast Kingdom Community Church. Eighteen allegations were eventually dropped. Two subsequent investigations failed to reveal any wrongdoing.

Eight months after the raid, church member Melody Cantrell told a state Senate panel that children in Island Pond continued to have nightmares about the dawn raid, adding, "My children were damaged."

The 1984 raid on the Northeast Kingdom Community Church may have been the pivotal event in Madeleine May Kunin's race for governor. Although Republican Gov. Richard Snelling openly accepted responsibility for the raid, Mrs. Kunin's opponent, Republican Atty. Gen. John Easton, was inextricably linked to the Island Pond fiasco. It was a tough incident to explain. It still is.

Democrat Kunin promised to form a special commission to investigate the raid. Of course, her platform promised oodles more, besides, including planks prohibiting electric heat as a primary heating source, proposing higher taxes for resort communities, and confiscating,

TOBY TALBOT

ONE ATTORNEY COMPARED THE RAID TO "A NAZI POGROM IN POLAND."

by eminent domain, businesses that want to leave the state. For all, some, or none of the above, Vermont elected a liberal, feminist Democrat in the year of the Reagan reelection landslide.

Governor Kunin was born in Switzerland in 1933 and raised in Massachusetts. She is married to Arthur Kunin, a wealthy Burlington physician, whom she recently appointed to a Governor's Commission on the Status of Women. Her brother is a Democratic state senator. Kunin has not been quite as radical as her platform portended—critics to the left and right call her "Straddlin' Madeleine"—and she has earned from Bernie Sanders the epithet of "Republican in Democrats' clothing." That must have stung, because Ms. Kunin's partisan credentials are intact.

For example, when Geraldine Ferraro's son was busted for allegedly peddling cocaine on the Middlebury College campus this year, it was Madeleine whom Gerry asked to suggest a good local attorney. The governor obliged. The case is pending.

More relevantly, perhaps, during her term in office, the state has added 200 employees to the public payroll. The state's minimum wage was increased. Vermont state government spending has increased at three times the rate of inflation. Yet, in this election year, Kunin is advocating more spending. She probably has to, with socialist Sanders nipping at her left flank.

She is favored to win reelection. And the Republicans?

"They are in disarray right now," says former mayor Romano, "and they sorely need to regroup." The mayor is given to understatement.

The reluctant Republican candidate is 40-year-old Peter Smith, the current lieutenant governor, who ironically had been beaten by Kunin for that very slot back in 1978. Smith is the consummate preppy: Phillips Academy, Princeton, and two postgraduate Harvard degrees. "I'm a privileged person," he admits without moving his lips. "I gave up denying that a long time ago."

Smith just might be able to offer a free-market alternative to the two other candidates. He may be able to adopt a platform of reduced state spending and less state interference in business. He may be able to recant his previous advocacy of raising the sales tax and come out for lower state taxes.

Almost certainly, he will not do any of these things. The timing is wrong. This is the year of Gramm-Rudman-Hollings—not Peter Smith.

The federal deficit-cutting measure promises to lay waste to Vermont. In per capita federal funding, Vermont ranks fifth in the nation. Federal funds account for 35 percent of the state's operating budget. For Smith to run as a fiscal conservative is to be associated with layoffs, cut-backs, less government...in other words, reality. For 20 years, Vermonters have voted their fantasies, their wishes, and their emotions. It's foolish to expect that they will behave differently this year.

EPILOGUE

In January 1986, Judge Wolchik, who had issued the search warrants for the raid on Island Pond, sentenced a three-time convicted felon to the care of the Northeast Kingdom Community Church. On this occasion the judge said, "I don't see this as any different than a probation with 80 hours of community service for Father Flanagan's Boys Town."

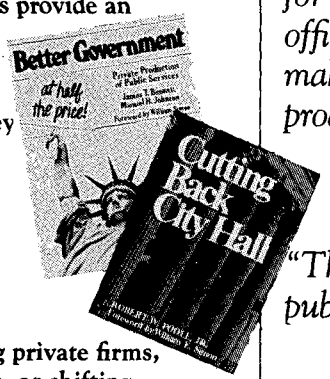
Governor Kunin, incidentally, has yet to appoint that special commission to investigate the raid.

Ex-Governor Snelling, who ordered the raid, is running for the US Senate.

Jim McIntosh is the editor of Magnetic North *magazine and is currently working on a book about water-pollution legislation.*

LOWER TAXES WITHOUT CUTTING PUBLIC SERVICES?

Face it. The special interests and liberal media are rebounding from the tax revolt. The big spenders are ready for a comeback. Taxes will go up unless concerned citizens provide an alternative to new bureaucratic programs that throw more money at local problems.



But there is an alternative: **privatization** — turning services over to competing private firms, charging user fees, or shifting to private, voluntary mechanisms.

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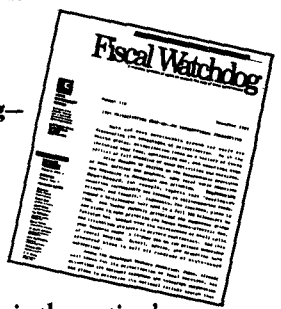
LGC's publications and especially its monthly newsletter— **Fiscal Watchdog**— are the key to unlocking the privatization alternative.



Fiscal Watchdog is the nation's only monthly newsletter on local and state privatization. Every month subscribers enjoy an

in-depth feature article on one particular aspect of privatization, such as private prisons, as well as the latest, up-to-date reports on where different types of privatization are being implemented and how. LGC also has two computerized databases that can list hundreds of jurisdictions where privatization is already in effect and the companies that provide such services.

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R8/86

From Now to '90

What lies ahead in the speculative markets.

By Robert R. Prechter, Jr.

Assessing the future course of market prices is always a tricky exercise but nevertheless a worthwhile one. Many market analysts deride forecasting as worthless (usually because they've failed at it so often). However, forecasts do provide value in at least three ways.

First, a person usually does his best thinking during quiet times away from the hurly-burly of market gyrations and the rush of news reports. It is at those times that an investor can make the most rational, least emotional assessments. In other words, forecasting, as opposed to "calling" the market in the heat of battle, is often approached with a higher quality of thought.

Second, a good forecast allows the analyst to attain a certain degree of psychological comfort. As long as the market is following the expected path, you can relax and let the market do the work in generating profits, while others alternately wax euphoric and rush to panic with each new piece of news, which in most cases is irrelevant to the basic trend.

Finally, a forecast is useful because it serves as a check against being wrong. Market players who do not spell out their expectations often will rationalize a losing position week after week, month after month, as each new price blip or news story serves to bolster their hope that the trend will reverse and go their way. Outlining your expectations in advance and tacking it on the wall is a tangible picture against which to compare the actual course of prices. If the two diverge seriously, you can't ignore it; it's time to abandon your losing position, reassess your conclusions, and perhaps even question the assumptions and premises upon which your forecast was originally based. In almost every case, you will learn something from your error, a "return" which may not be immediately consumable but which may be the seedcorn from which a better strategy and a more bountiful outcome will be realized in the future.

Over the past 14 years, I have examined well over a hundred methods of market analysis and forecasting. I've kept some and thrown out many. By far the most useful, reliable, and accurate I've found is the Wave Principle, an empirical description of the way markets behave, developed by Ralph N. Elliott in the 1930s and '40s.

After studying charts of all types of speculative markets, Elliott noticed that price movements traced out the same patterns and sequences of patterns regardless of the market under study. He then catalogued, with clear specificity, the 13 patterns found in speculative markets. Each pattern, he observed, has implications regarding the position of the market within its overall progression, past, present, and future. His basic observation was that moves in the direction of the larger trend will subdivide into five "waves" (an up-down-up-down-up sequence in an advance and vice-versa in a decline), while moves against the trend, which may trace out any one of a number of specific "corrective" patterns, never take the "five wave" shape. By studying these differences in form, the larger trend can be identified and investments can be made accordingly.

Elliott ultimately concluded that mass human behavior is apparently such that a crowd acts the same way (and will always act the same way as long as people are people) in each situation where its members are betting against one another on the future course of prices. Its mood will swing from optimism to pessimism and back again in this sequence, which is natural to human beings and which occurs regardless

of the surrounding extramarket news. That forms based on the same underlying principle have been observed throughout the natural sciences has merely added to the interest in Mr. Elliott's discovery.

As verified by independent performance-rating services, the Wave Principle has an excellent record of forecasting and calling market turns. Like all useful forecasting tools, however, it does not allow perfection. Therefore, as with all opinions on the market, please observe that time-tested maxim, *caveat emptor*. In the end, after reading all the pundits' opinions, you must make your own decisions. As input to your thinking, I present here my outlook for the next few years on six major areas of concern to most investors: the stock market, precious metals, interest rates, commodities, oil, and the economy.

ILLUSTRATIONS–RICHARD DOWNS

The Stock Market. In the 1978 book *Elliott Wave Principle*, A. J. Frost and I applied Elliott's concepts to the long-term progression of US stock prices from the Depression lows of 1932 and argued that from the then-current level of 790, a powerful bull market was due to carry the Dow Jones Industrial Average (DJIA) to near 3000. Our stance was in opposition to the widespread expectations that a "Crash of '79" or a "Kondratieff wave depression" lay dead ahead. At this juncture, the Wave Principle's evidence about the typical progression of prices in a bull market points to several conclusions:

- The major bull market dating from 1974 in the broad market indexes and from 1982 in the DJIA is not yet over.
- The ultimate upside target is approximately 3600-3700 on the DJIA.
- The late 1980s (probably 1987 or 1988) is the most likely time period for the final bull market to peak.
- Along with numerous minor pullbacks, there should be one severe correction in the averages of approximately 15 percent (akin to the 16 percent decline that occurred in the first half of 1984) at some point prior to the final top.

The DJIA has already more than doubled from the 1982 low of 777 and therefore appears high to many market watchers. But this rise is well within the normal parameters of price behavior at this stage in the long-term mass psychological progression toward increasing market optimism. In fact, the DJIA is likely to double again before the final high is seen. Although the bargains of 1982, 1984, and even September 1985 are no longer available, the US stock market still appears to offer the most promising long-term investment vehicle among today's major markets. Five to 15 percent corrections along the way (several of which are due to occur this year) should provide good entry points for new investors.

The Bond Market. From 1981 to now, the market for debt—from top-rated US government bonds to "junk"—has experienced one of its greatest bull markets in history. In my opinion, it is likely that the end of that bull market is occurring now. In the past, advances in bonds have shown a tendency to top out prior to peaks in the stock market, so this conclusion fits fairly well with the outlook for stocks. The best interpretation of the price structure in bonds indicates that the maximum likely downside limit for 30-year Treasury bond yields is 7 percent (plus or minus .25 percent), and that target zone has been met. Even 90-day Treasury bills have achieved their downside target level at just below a 6 percent yield. Although bonds may still provide an attractive interest rate return, it is probable that bonds will no longer provide the dramatic capital gains that they've produced over the past five years. This is not to say (though it's certainly possible) that interest rates must begin rising immediately and dramatically but only that in all likelihood they'll stop going down.

Gold and Silver. Although every financial issue of REASON has contained at least one analyst's fervent call for an upward explosion in precious-metals prices, gold for the most part has remained in a down or sideways trend since its peak in January 1980 at $850 per ounce. Silver, in turn, has been an unmitigated disaster, falling 90 percent from its $50 peak registered at

that time. Is this the major bottom for precious metals? Is inflation ready to "resume," "reheat," or "resurge"?

Although rallies may occur at any time, the evidence from the price structure argues strongly that the major bear markets in gold and silver remain in force. In support of this contention are (1) the lack of bearish conviction on the part of investors, a precondition for a major bear-market bottom, and (2) the position of the time cycles in gold. In the past, the precious-metals markets have displayed a remarkable tendency to bottom at regular intervals. The next scheduled major low for gold and silver is not due until 1988. According to normal Elliott Wave parameters, moreover, gold still has potential ultimately to decline to the $100- to $180-per-ounce price range before the next major bull market begins.

If this potential appears ridiculously low to you, please consider the fact that all markets tend toward extreme overvaluation at tops and undervaluation at bottoms. There are some further points, too, that make such a target worth considering. Silver has already met its Elliott Wave bear market target zone of $3.50-$5.50, which itself appeared ridiculously low when it was originally suggested. Moreover, the prices of commodities, from grains to oil, have fallen dramatically from their all-time highs, and the trend toward deflation is well established (brief inflationary interludes notwithstanding).

So why hasn't gold fallen as dramatically as silver and commodities? Market watchers have long noted that in the final stages of a bear market in stocks, the blue chips are tossed overboard last, as the environment of panic finally persuades investors to give up even on shares of the nation's finest companies. Gold, of course, is the "blue chip" of the inflation-hedge investments. It may well be that gold, in reflecting a dynamic similar to that found in the stock market, will be the last inflation-hedge investment to be sold by long-term hard-money investors. Time will tell. Whatever the ultimate low in gold, it is likely to underperform the US stock market, so unless and until gold begins tracing out bullish price structures, it is best avoided.

Commodities. The general uptrend in commodity prices that began in the late 1960s ended in 1980-1981. The Wave Principle recognized the peak and forecasted a two-step decline carrying the Commodity Research Bureau's Futures Index from its peak at 337 to a low between 175 and 205. The 205 level has already been met, and the price pattern indicates a strong likelihood for a spring-summer rebound in general commodity prices (probably led by the agricultural markets). However, that rally phase is expected to be merely an interruption of the overall bear market, which should resume later in 1986, carrying the CRB index of commodity prices to the lower end of its target range in 1987.

Oil. Petroleum prices collapsed from November to April in a classic Elliott Wave pattern. Unfortunately for producers, the crash that brought the price of crude oil from $30 to $10 per barrel is probably not the end of the long-term decline in oil prices. A countertrend rally is due, but I expect it to peak below $18 per barrel. At some point in the next two years, petroleum prices should decline to below their April 1986 lows.

The Economy. For the past three years, the US economy has been in a very selective expansion in a situation similar to that of the 1920s. Areas such as computer and service companies are enjoying boom times, while farmers and oil companies are experiencing an out-and-out depression. The best single leading indicator of the economy is the stock market, and the stock market's selective upside performance since 1983 has accurately foreshadowed the positive but selective performance of the economy.

The powerful rise in stock prices in early 1986 is forecasting further favorable economic performance overall. When the stock market undergoes the expected 15 percent correction that I suggested above, some time in the next nine months, it will be foreshadowing a mild recession beginning several months thereafter. The Wave Principle suggests dramatically higher stock prices over the next two years, so the beginning of a deep depression or economic disaster will not be in the cards until at least 1989.

Upcoming Long-Term Changes. While my interpretation of the Wave Principle indicates continuing good times for stocks and rough times for the inflation-hedge investments (with the exception of some countertrend movements), it also indicates a dramatic change of direction for both areas in the late 1980s. The chart pattern in stocks strongly suggests an end to the bull market late in this decade and a devastating bear market thereafter, probably beginning by 1989. Gold, the only true "store of value" money, is not "dead," either. While the current bear market is likely to cause the vast majority of "gold bugs" and hard-money believers to give up on gold just as it is bottoming, that bottom is expected to provide the second super "buy" in a generation.

Gold is not dead. While the current bear market is likely to cause the vast majority of gold bugs and hard-money believers to give up on gold just as it is bottoming, that bottom is expected to provide the second super "buy" in a generation.

Although my analyses of markets are done separately based upon their price structures, they do indicate a major top in US stock prices and a major bottom in gold at approximately the same time. This concurrence indicates that the trend among investors toward optimism about the future will end fairly abruptly, probably in 1988 (coincidentally an election year), and

lead to a period of sharply increasing pessimism about the future. A powerful bear market in stocks beginning at that time would further suggest a full-scale economic depression in the 1990s. A powerful bull market in gold would suggest that the financial and monetary conditions will be disastrous enough to cause a worldwide flight to real money.

As to the causes of such a change other than the natural progression of human moods and market prices, we can only speculate (the world debt situation, obviously, is a prime candidate). As to the details of the financial environment at that time, we can only surmise. In the meantime, stay on the right side of the trends, reassess your opinions when necessary, and put your money where your conclusions are. When all is said and done, that's the best way to stay financially healthy. ◧

Robert R. Prechter, Jr. is coauthor of the book Elliott Wave Principle *and editor of* The Elliott Wave Theorist, *a financial forecasting newsletter based in Gainesville, Georgia.*

Baby Boomer Mortgages

How to save a bundle in buying a home.

By Howard Ruff

The real estate market was battered by high interest rates in the late '70s and early '80s, but now that rates are tumbling, real estate has come to life. Home buyers are flooding back into the market, and opportunities abound.

The key to making a successful real estate investment often lies in finding good financing and keeping up with the trends. And the hottest trend to hit the real estate market in the last year is the stampede toward what I call "baby boomer mortgages"—15-year, fixed-rate home loans. With housing starts booming, interest rates down, and many Americans moving up, these shorter-term mortgages have evolved from a trendy form of "yuppie financing" into one of the most popular types of home financing available today. They are much more than just a craze. Today, lenders who *don't* offer 15-year mortgages are the exception rather than the rule. If you're in the market now for a new home, or if you're joining the hundreds of thousands of Americans who are refinancing their real estate, a 15-year mortgage could be of interest to you.

The Pros. If you've shopped for a home loan lately, you've undoubtedly come across 15-year mortgages. Lenders love them because most have fixed rates, so exact returns can be calculated, and the shorter payback period reduces their risk.

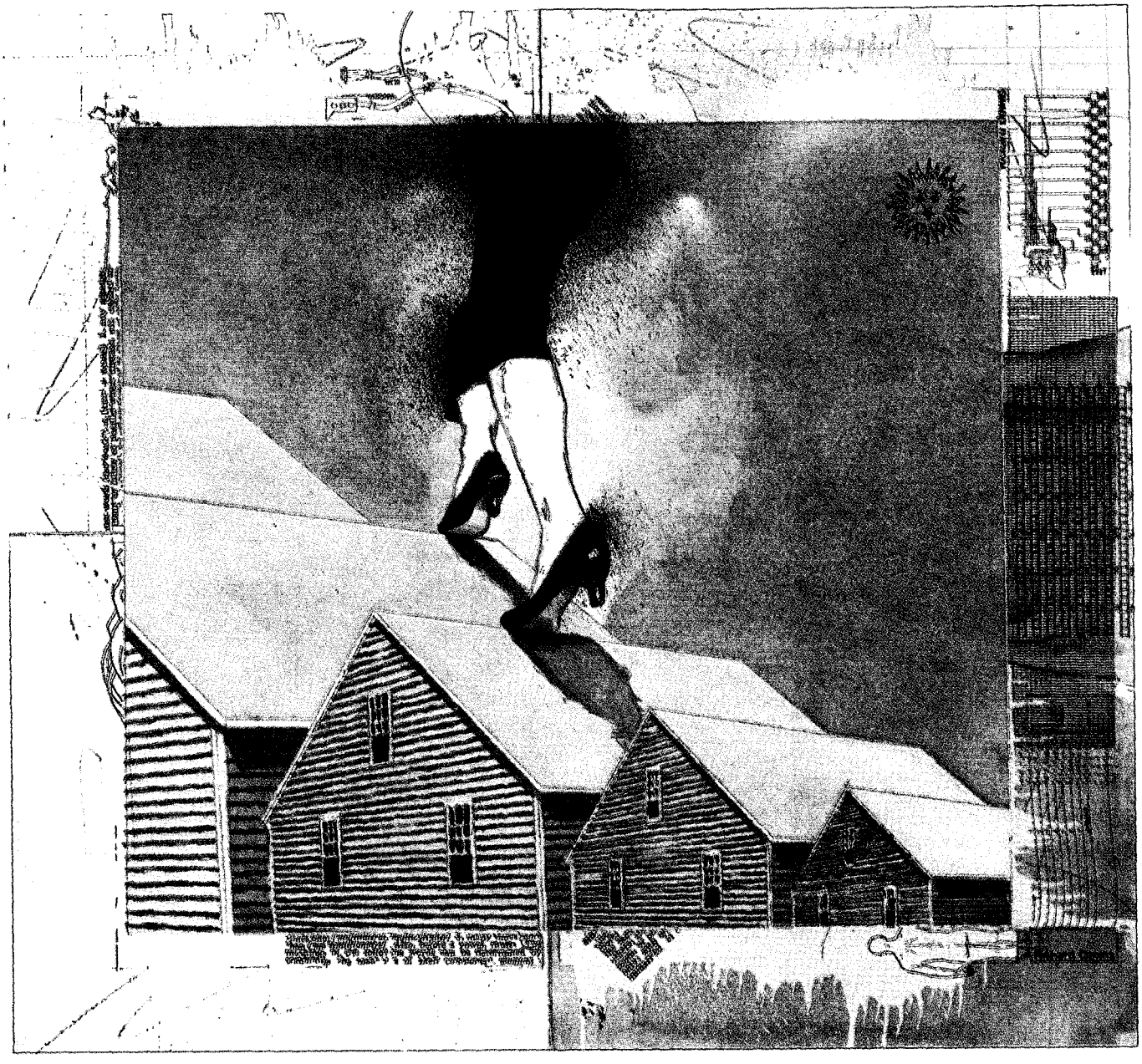
Shorter-term mortgages also offer borrowers several benefits:

- Rates are about one-half point lower than those on 30-year loans, and monthly payments are only 10-15 percent higher. A $100,000 loan at 9 percent interest amortized over 15 years has monthly interest and principal payments of $1,014, compared to $841 for a $100,000 loan at 9.5 percent over 30 years—a difference of $173 a month. With rates down, such payments are well within the grasp of many families.
- Equity builds more rapidly, so homeowners can get a fast start in moving up to bigger and better housing. It takes 22 years to pay off half of the principal of a 30-year mortgage, compared to only 10 years for a 15-year loan.
- Lenders make money by compounding interest, so paying off your principal quickly means tremendous interest savings. A 15-year mortgage can cut a borrower's total interest costs by more than half over the life of the loan. On a 15-year $100,000 mortgage at 9 percent interest, you would pay just $82,520 in interest, as opposed to $202,760 on a 30-year $100,000 loan at 9.5 percent—*a savings of $120,240.*
- Many borrowers like 15-year mortgages because they can own their own house free and clear before their kids reach college age, or before they retire, after which their cash needs are greatest.

And the Cons. There are three primary arguments against 15-year mortgages:

First, the higher payments require more cash to be tied up in illiquid home equity, which produces no income and reduces the leverage that a mortgage provides. On the other hand, higher payments and less liquid cash can be a *plus* for people who tend to spend every penny, because it forces them to save. And for many people who want to fulfill the American dream and own their home outright, the higher payments are not prohibitive.

Second, borrowers get fewer dollars in tax savings. Payments are higher, but there's less interest being paid, which is the deductible portion of a home-loan payment. And if the Senate tax-reform proposal to slash tax rates becomes law, the tax savings will drop proportionately. In response to this argument, it's true



that long-term tax savings are greater with a 30-year mortgage; but in the first few years they don't differ much from those of a 15-year loan. After 5 years, interest payments on a 15-year loan would total $40,936 compared to $46,689 on a 30-year loan—only about a $2,876 savings for someone in the 50 percent tax bracket. And when the mortgage is paid off in 15 years, you can look for a new tax shelter.

Third, some lenders offering 15-year mortgages require *biweekly* payments. This requirement may reduce the borrower's flexibility, leaving little room to maneuver if things go wrong.

Another option. The biggest question for most borrowers is whether they can afford the higher payments of a 15-year mortgage. Lenders report that 15-year mortgages are most popular among affluent home buyers rather than first-time buyers, who are usually already stretching to qualify. For these buyers, or for homeowners who don't want to hassle with the time and expense of refinancing, it may be smarter to stick with 30-year mortgages and simply increase the monthly payments to reduce the pay-back period.

As long as they don't trigger a prepayment penalty, increased monthly payments also save borrowers thousands of dollars in interest, allow equity to build more quickly, and reduce the time over which the loan will be repaid. But they provide more flexibility than being locked into the high payments of a 15-year loan, because borrowers aren't obligated to make the higher payment every month.

Here to Stay. The 15-year mortgage is more than just the latest craze to hit the real estate market. More than two-thirds of all savings and loans offer them, and consumers are beating down the doors to sign up for them. They are going to be around for a long time.

When shopping for a home loan, check out shorter-term mortgages or consider increasing the payments on your 30-year loan. If you can afford the higher payments, you'll save a bundle in the long run and you can own your home in half the time—and those are not trivial pursuits. ◧

Howard Ruff is editor of The Financial Survival Report *and author of several books on investment and financial survival, including* Making Money *(Simon & Schuster, 1984).*

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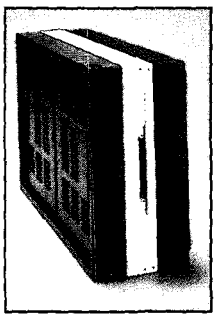

Blending convenience with practicality the Versabox allows you to easily carry groceries, laundry essentials, picnic supplies — anything. Converts in seconds from its flat storage size of less than 3" high, to 10"x20"x12" (just slide up frame, snap down sides). Side grip handles make carrying large loads a breeze. Made of lifetime polypropylene with stainless steel pin hinges the Versabox **can safely hold up to 85 lbs.** and will prove its worth in garage, garden, basement or car. Since these crates stack whether open or folded flat, you'll want to order several. Available in red, blue, and white. Versaboxes cost **$17.00** ($4.95) each. Red #A1586RE; White #A1586WH; Blue #A1586BL. Set of 3 in assorted colors (red, white & blue) **$45.00** ($7.95) #A15893. Optional set of four casters insert into bottom for added roll about mobility. **$7.00** ($1.95) #A1587.

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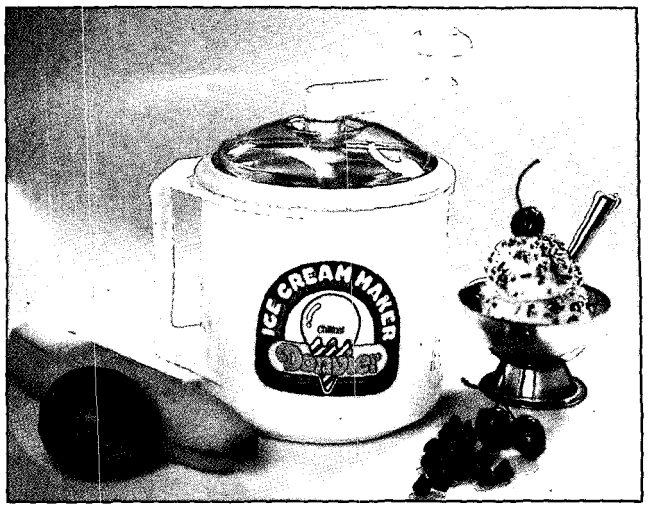

Homemade ice cream is wonderful, no argument. The sentiment is so American even Thomas Jefferson shared it. But homemade ice cream is typically a lot of work, what with chopping ice, mixing in layers of salt, cranking away forever. The Donvier Ice Cream Maker is another story entirely. Its special Chillfast pot has a refrigerant permanently sealed in its walls. Just store the pot in the freezer. When you're ready pour in the makings of ice cream, turn the handle a few times, and wait. A few more intermittant turns and 20 minutes later you have delicious natural ice cream with the distinctive fresh flavor, smoothness and lightness of homemade. No salt. No ice. No electricity. No hassle. All the fun of homemade ice cream without the trouble. The whole family will enjoy making naturally flavored sherbets, icy colas, low calorie treats. Comes with tested recipes. Easy cleanup too. Donvier Chillfast Ice Cream Maker will give you a gourmet reputation with a minimum of effort. Pint capacity, **$36.00** ($4.95) #A1536; Quart capacity, **$49.00** ($4.95) #A1537.

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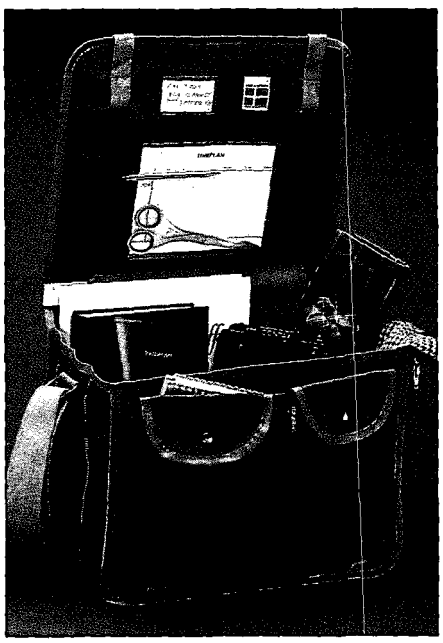

This oversize bag is an overwhelming success with photographers, artists, students, musicians, dancers, opera singers, nuns, poets, duck hunters, cyclists, plumbers, teachers, reporters and travelers... because it's a versatile labyrinth of roomy pockets. Made of waterproof canvas that wears like iron, the bookbag has an unusual zipper design that enables the bag to expand to double its normal width — to a full 8 inches. It also has two outer pockets in front and a large back pocket. An adjustable 2" wide strap makes the burden easier. Choose grey #A483, brown #A484, tan #A808, black #564. **$29.00** ($4.95).

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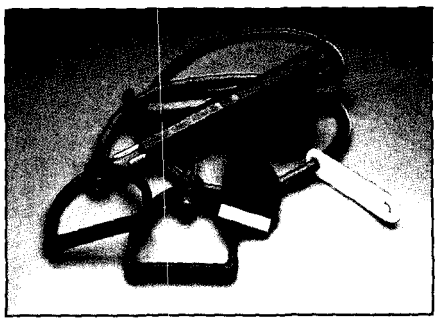

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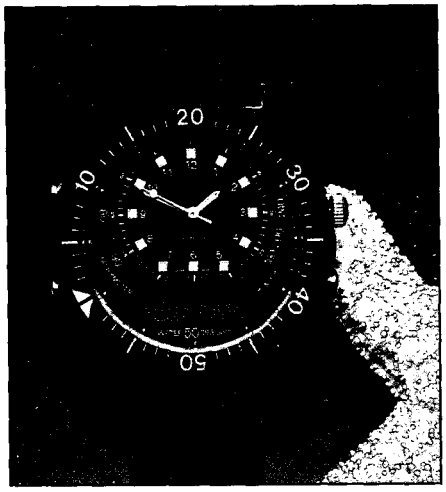

The first thing to amaze you about this custom chronograph is its array of useful features. But the real surprise is the whistlestop price: under $50. The Diver's Watch is rated waterproof to 5 atmospheres (over 150'). The movable bezel, case and band are all "black chrome" plated in a rugged matte finish. Two sunken faces provide fully independent digital and analog timekeeping, so you can set one face to home time and one to travel time. Date, day and month display; alarm; 1/100 second chronograph with lap timer; choice of hourly chime, 12 or 24-hour format. Precision Japanese movement. 1-yr. warranty. **$39.00** ($4.95) #A1490.

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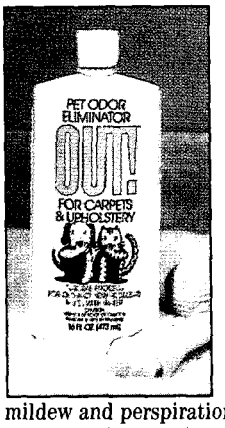

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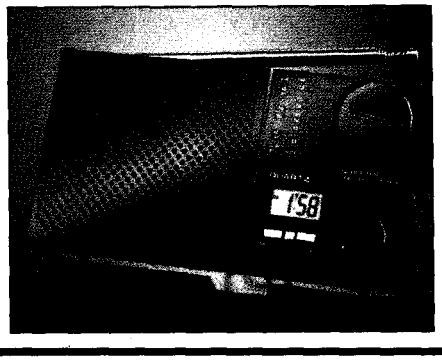

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Which Coins to Buy, Which to Sell

Don't rely on the flip of a coin.

By James R. Cook

Exactly 10 years ago, gold and silver were sputtering, the dollar was dropping, inflation was a thing of the past, the Fed was creating billions out of thin air, stocks and bonds were in and tangibles were out. Back then, interest rates were going lower, gold bugs were considered quacks, and the economists and Wall Street soothsayers waxed confidently about the dawn of a golden age. Déjà vu.

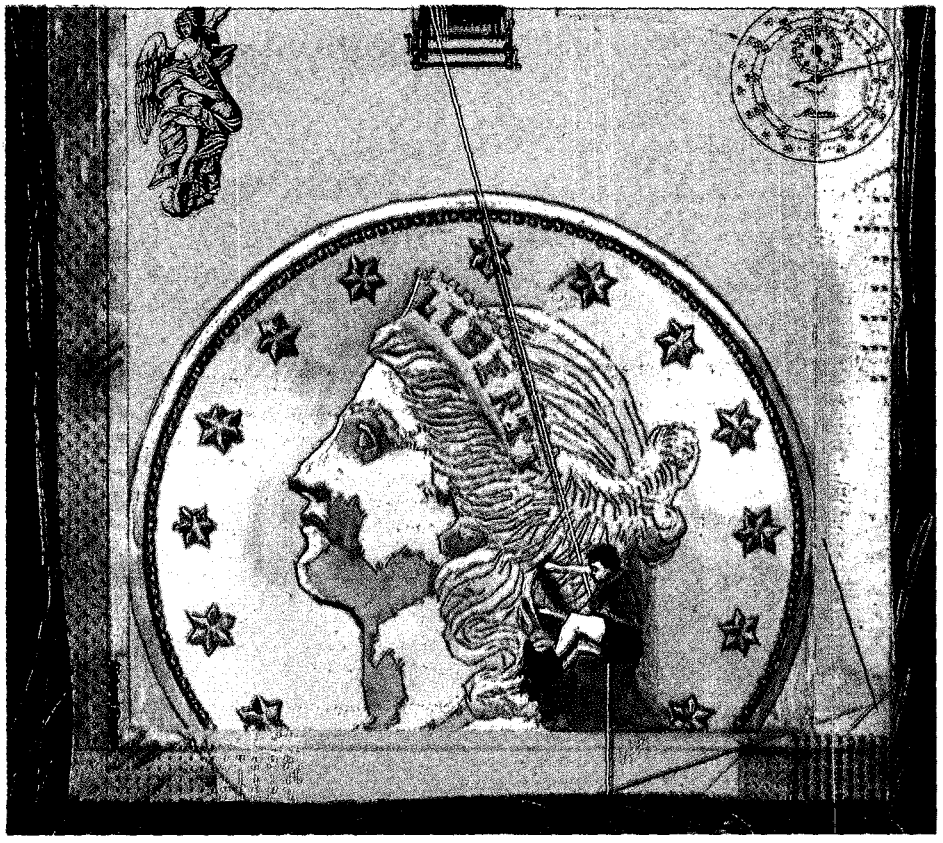
Many things seem the same today. A vast expansion of money is buying us another boom. Although the Consumer Price Index is flat, the stock market forecasts an impending economic boom. The rising prices of securities foretell the rising prices of everything, and a mind-wrenching inflation probably looms around the corner. Consequently, the investment decisions you make now have great bearing on your future profits.

Gold and silver coins are currently out of favor, which is historically the best time to act. Why buy coins? Investment banking firms and financial publications have consistently ranked coins among the top two or three investments of the past 20 years. Coins —especially those containing gold—have an excellent rate of appreciation and offer a good hedge against inflation. And unlike stocks or real estate, coins are portable and collectable, with a unique ability to satisfy people's acquisitive nature.

In order to profit from coins, you need to get the facts. You also need to make clever and adroit moves before others do. Have the courage to act contrary to the crowd.

What to Buy. During 1980-84 the US government minted a series of one-ounce and half-ounce gold coin medallions that bombed. In a fervent attempt to distribute the coins equally rather than allow some investors to get 10 or 20 at a time, the government limited the amount that anyone could buy to a few ounces. This egalitarian foolishness meant that no serious gold investor bothered with them. By the time they changed the rules, it was too late. The whole program foundered, and the medallions were dumped onto the market.

But these coins are worth buying for one reason: their limited mintage. For example, only 500,000 Robert Frost and Grant Wood medallions were minted, and only 35,000 Hayes and Steinbeck medallions were minted. No more of these coins will ever be made, which distinguishes them from gold Krugerrands, Maple Leafs, and other bullion coins with open-ended annual mintages. The Hayes one-ounce medallion is already selling at 25 percent over its gold value, demonstrating the propensity of these coins to take on a numismatic, or collector, premium. And if the premium of a medallion rises to 15 percent, it is classified as a numismatic coin whose sale need not be reported to the government. So trade in your Krugerrands and Maple Leafs for these medallions. Check with your accountant, but the best tax information we can get says that gold for gold is a tax-free switch. This is a low-risk way to pick up an additional gain on your bullion holdings.



Newly minted US gold coins are also hot. The brand-new 1986 Statue of Liberty gold coin has already doubled in value, as have the five 1984 Olympic gold coins.

Despite a big move up in most US gold coins, the $20 Liberty gold coin in

MS60 condition still seems underpriced at about double its gold value. (Coins in MS, or mint-state, condition have never been circulated. The number is a measure of absence of surface blemishes, with 70 being a perfect coin and lower numbers indicating more blemishes.) This coin, which is nearly 100 years old and not as common as many dealers think, contains almost an ounce of gold. It is a two-way investment, with both antique value and gold value. If inflation resumes, this coin has a long way to go.

The deadest investment in the world today is silver; nobody seems to want it. Nevertheless, silver is a precious metal with heavy industrial usage. When the public buys, silver soars. Will they buy again? In my opinion, they will buy more than ever before. Everyone knows what silver did in 1980. When it starts to move again, the crowd will follow.

So don't give up on silver. Buy 100-ounce bars. The 90-percent silver coins are not as good as the bars because they aren't as pure. Consequently, their price may slump in a bull market.

Also buy circulated Morgan silver dollars, which have over three-fourths of an ounce of silver. The best of these are graded XF (extra fine) to AU (almost uncirculated) and are dated 1878-1904. They are the best known and most popular silver coin in history, with a high collector value which has stayed high even when the price of silver has fallen. The better dates and grades cost about $20 each.

What to Sell. Over the past several years the so-called MS65 dealers have promoted silver dollars, Franklin half dollars, and silver quarters and dimes in this grade. The price of MS65 dollars has soared nearly 300 percent.

Cash these in and take the profits. The new MS64 grade probably indicates that some MS65 dollars are being reclassified. Currently the MS64 coins are rising in price, while the MS65 dollars are stagnant. Dealers are so fussy now about what constitutes an MS65 coin that it makes sense to sell off your MS65 dollars. In particular, get rid of the common-date MS65 Morgan and Peace dollars that rose by such an extraordinary percentage in the past two years.

What to Be Wary of. A number of new coin-grading services have popped up, claiming they're the saviors of the coin business. Put this into perspective. When colored gems and diamonds were hot a few years ago, everyone insisted on having grading certificates. Today gems and diamonds are bought and sold with no mention of certificates. The market pays for what the market sees. Certificates don't change mediocre gems into high-quality ones.

So it is with coins. A coin certificate won't mean a thing when you sell; only the true grade of the coin counts. If your certificate is in harmony with the grade—in other words, if the certificate is accurate—then you will get the price for that grade. Otherwise you won't realize the certificate price when you sell.

Certificates are only good for peace of mind. If you don't trust your dealer's grading, or if you don't think your dealer will buy back your coins at an accurate grade, then perhaps you should get a certificate. But I think certificates are mere boilerplate. However, if you insist on a certificate, I recommend NCI, 311 Market Street, Dallas, TX 75202. They charge 4 percent of the value to grade your coin.

Another trend in the coin business is delayed delivery. It has become fashionable for some dealers to claim that a scarcity of coins requires a six- to eight-week shipping delay before buyers get their coins. This is nonsense. Many dealers have gotten into trouble by abusing their clients' trust. They commingle customers' funds and live off the float. This scam has been the primary cause of every major failure or scandal in the coin business. Never let any dealer hold your money for a lengthy period. Any trustworthy dealer promises delivery within 48-72 hours, so insist on speedy performance.

When the public buys, silver soars. Will they buy again? In my opinion, more than ever before. Everyone knows what silver did in 1980. When it starts to move again, the crowd will follow.

Many people who advocate buying gold recommend that you walk in to your local coin dealer with money and walk out with gold. Sounds reasonable, but I have a few caveats about Ye Old Coin Shoppe:

- Small coin shops have recently been the focus of significant IRS scrutiny. Some dealers have been asked for their records, and many play funny sales-tax games. Avoid any shortcuts when dealing here.
- Security has sometimes been a problem. For example, an Illinois couple drove to a Chicago dealer, bought 100 Krugerrands, returned home, and were immediately robbed of the coins. You can't be careful enough when you buy and own gold. Maintain strict security and know your dealer.
- Many local dealers hold your money while they order your gold. Small dealer stocks mean you pay in advance and wait. This is poor policy, as I previously explained. Don't let anyone hold your money for a long time.

Also beware of buying from the many newsletters that have recently jumped into the coin business. Besides the obvious conflict of interest between giving advice and selling an investment, many nettlesome problems beset the inexperienced coin dealer. Everybody seems to think the coin business is a quick way to pile up a fortune. In reality, coin dealing is a demanding business that takes at least five years to master. Many investors have been ambushed by dishonest dealers, but inexperienced dealers are just as much of a problem. The customer gets gypped and even the dealer doesn't know it. Experience is crucial in any business, and coins are no different.

It's probably more important to become an expert on coin dealers than on coins. Take the time to investigate

potential dealers. Make sure your dealer meets the following criteria:

- has been in business at least five years;
- has no complaints at the Better Business Bureau, state securities departments, and the post office (call them);
- has a bank reference from a bank officer (call the bank);
- has a bond with a major insurer;
- does not make obnoxious, high-pressure sales pitches;
- has a guaranteed return privilege for a specified period of time;
- guarantees delivery to you within five days of payment;
- has scrupulously honest salespeople (monitor for exaggerated claims or fibs of any kind);
- sells US coins only—doesn't try to switch you into foreign coins with exorbitant commissions;
- sends coins directly to you, without storage, financing, margin, or leverage; and
- has gracious, competent, and service-oriented personnel.

Too Many Red Flags? I've been roundly criticized for stressing too many negatives in the coin business. For almost 14 years, I have warned about traps, frauds, and bad investments. Does this mean that you should avoid the coin market? Not in the least. On the contrary, I think nothing will appreciate like gold and silver coins. But you must be shrewd. Learn to size up dealers, whether they be in coins or any other collectable. And remember that when you are looking for better-than-average gains, you must always take some calculated risks. ◧

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How to Score with Stocks

Go for the mutual funds.

By Bert Dohmen-Ramirez

Investing should be fun as well as profitable. Because the average investor does not have time to become an expert, his investments often turn into nightmares. He usually buys popular stock groups at their tops, just before strong downturns. Suddenly an investment which was to finance his next vacation becomes the cause for sleepless nights. Brokers then advise the investor to "average down" by buying more stock at a lower price in order to average the total share price in the portfolio. Psychologically that works for a while, although in most cases it's throwing good money after bad. Soon the second purchase also turns out to be a loser.

Often the news is good while the stock declines. The investor is puzzled: good earnings have just been released, the dividend increases, and the industry is getting good publicity. The average investor doesn't know that most stock groups get the best publicity just before a major downturn.

As the stock price continues to erode, nights and weekends turn into gut-wrenching periods. Finally, the investor can stand the agony no longer and bails out. That's usually right at the bottom.

How can you avoid such frustrating experiences? Forget about individual stocks and buy mutual funds instead. Selectivity is important, but if you pick a fund with a good track record, you'll minimize your risk while maintaining an excellent opportunity to participate in any market upmove.

Mutual fund investing offers many advantages. While the average investor can devote only 5 or 10 minutes to his investment each day, the experts at a well-run mutual fund spend *all* their time investigating stocks, industry groups, and the economy—and they do this from a technical viewpoint. It's logical that these professionals will outperform most part-time investors over the long term. In fact, any admittedly amateur or novice investor is foolishly optimistic to think he can win the battle in the marketplace against the experts. The experts are armed with years of experience, high-powered computers, and all the tools available to reduce risk and enhance profit potential.

Unfortunately, many investors still make the mistake of believing that mutual funds are stodgy investments. Wrong! Look at sample performance figures: since 1974, Magellan Fund is up over 3,300 percent, and other funds are up over 2,000 percent. The figures for shorter time frames are also impressive: in

1985, Fidelity OTC Fund, which invests in over-the-counter stocks, brought in a gain of 69 percent; Fidelity Overseas, an international fund, appreciated 78 percent; and Magellan Fund, a $5-billion giant, appreciated 43 percent.

When choosing the mutual-fund route, investors should further diversify their investments by selecting several different funds. With the availability of special sector funds, diversification offers something for everyone. These funds let you choose the specific area of the economy in which you want to invest. For example, if you think that lower oil prices will cause a boom in leisure-time stocks, you could choose Fidelity Select Leisure, a high-performing leisure-time mutual fund.

International funds were the top performers last year because of soaring foreign currencies; they may repeat their performance in 1986. Many investors are now considering the energy funds, thinking that the time to buy energy is when "blood runs in the streets." I stongly urge you to stay away from such bottom-picking; in my opinion, the blood bath in the energy sector has just begun.

If you don't care to choose specific areas of the economy in which to invest, let the mutual fund managers do it for you. Select a well-managed fund like Magellan, Manhattan Fund, Nicholas Fund, Evergreen, Janus, or 20th Century Select.

After you've chosen several funds for your portfolio, you have to know when to buy and when to sell. Many investors use an emotional "gut-feel" approach, which is usually disastrous. Others try to analyze the market and the economy.

One strategy involves the simple moving average, which attempts to time the entire stock market rather than individual mutual funds. In my opinion, however, it's too simplistic to believe that all mutual funds behave in the same manner. During the bear market of 1984, for example, such funds as Mutual Shares and Lindner appreciated handsomely. And during the strong bull market of 1985, not all mutual funds went up. 44-Wall Street Fund, a hot performer in the '70s, lost over 20 percent during 1985 after having lost 59 percent the year before.

Use a strategy geared toward individual mutual funds. By having a computerized strategy which gives specific "buy and sell" signals on each fund, you can sell only those that produce a sell signal while keeping those that stay strong. Fund selectivity is more important than market timing. Select your investment properly, especially in these precarious times when some sectors in the economy are depressed while others are strong.

A disciplined strategy for investing in mutual funds need not be very active. Our Worry-Free Investing strategy, for example, when tested on 10-year data for numerous funds, showed 6-10 signals, or less than one transaction per year on average. Yet this strategy of compounded annual returns produced results of 30-40 percent and more, depending on the fund. A good strategy produces a buy signal at the start of a major upmove and a sell signal before a major downmove, allowing you to put your money into money market funds. It's not necessary to catch the very top or bottom of the moves in order to make substantial profits.

By using a systematic approach to mutual fund investing, most investors can become millionaires. Assume you made a $10,000 investment which grew at a 25 percent compounded rate in a tax-free plan such as an IRA, Keogh, or other pension plan. Here's how your investment would increase:

5 Years	10 Years	15 Years
$30,517	*$93,132*	*$284,217*

20 Years	25 Years	30 Years
$867,361	*$2,646,698*	*$8,077,935*

If you invest $10,000 when you're 40 years old, your investment could be worth over $2.6 million by the time you're 65—without adding a nickel. Making additional contributions along the way would make you a millionaire many times over.

In early 1985 I wrote, "This is the greatest bull market of our time." Since then the Dow Jones Industrials have soared over 600 points, but investors are still skeptical. Many have been scared out of the market by the gloom-and-doomers, who predict that the world will end because of the high federal budget deficit, high trade deficit, bulging Third World debt, farm-sector problems, and loan defaults at major banks. Investors don't realize that these conditions actually help the stock market, since they force the world's central banks to pursue a more generous monetary policy. Such a policy assures that money will remain plentiful, which in turn drives up the investment markets. These conditions have existed for the past four years, and the stock market has had one of the strongest surges of the past 50 years. The market responds only to one thing: the availability of money. Money will be plentiful as long as these conditions prevail.

In 1985, sales of mutual funds broke all previous records. The skeptics see this as a testimony to excessive speculation typical of a stock market top. What they fail to realize is that about 80 percent of the money going into mutual funds has been going into those funds which invest primarily in bonds. This confirms that the public is still basically out of the stock market. The final phase in any bull market comes when investors liquidate their fixed-income portfolios, such as bonds, and commit their money to the stock market. We're nowhere near that stage now.

Today's super-bull market offers an investment opportunity which occurs maybe once every 50 years. Act now, or you'll have to wait a long time for another chance like this. ◻

Bert Dohmen-Ramirez is editor and publisher of The Wellington Letter, Wellington's Worry-Free Investing, *and* Wellington's Capital.

How to Profit from the Pacific Rim Miracle

Even the small investor should look to the Far East.

By Adrian Day

The Pacific Rim–Far East region continues to be the fastest-growing area in the world. Its annual growth rate of 8-9 percent over the past decade far surpasses the rates of the more mature economies in Europe and North America as well as the underdeveloped economies in South America and Africa. Though this phenomenal growth will likely subside as the economies mature, the Pacific region will continue to outperform the rest of the world. And the relatively inexperienced US investor, even with little capital, can easily profit from this miraculous performance.

Nothing on the horizon seems likely to threaten the status of the Pacific nations as fast-growing economies with significant profit potential. The so-called newly industrialized nations of Asia have been growing at an astounding average rate of 7.5 percent per year (discounted for inflation) for the past 12 years, and the developing nations have been growing at 5.6 percent. Even Japan, the most mature economy in the region, has been growing at 3.7 percent. Compare these figures to the growth over the same period of the member nations of the Organization for Economic Cooperation and Development (OECD), which averaged only 2.3 percent.

The Pacific Rim countries have proven their resiliency. While the OECD nations chalked up "negative growth" in the recent worldwide recession, the Asian nations continued to bounce along. They did experience a sharp decline in growth, but the drop was shorter and less severe than elsewhere.

And all signals indicate continued growth in the region. Why?

As "developing" nations, they are on the steepest part of the traditional growth curve, which means that a lot of their development is yet to come. Even the relatively advanced nations like Korea and Taiwan have not reached industrial maturity. Only Japan has, and its growth is still high by world standards.

In addition, most of the countries in this region share several characteristics which facilitate rapid growth, including:

- generally free markets and few restrictions on entrepreneurs;
- free trade policies;
- an openness to foreign investment, which supplies a ready pool of capital without draining the resources of the nations themselves;
- very high savings rates;
- relatively low tax rates;
- a combined pool of cheap and educated labor;
- low inflation and debt burdens; and
- stable and open political systems.

Poor immigrants can still become millionaires in most Asian countries. Horatio Alger success stories abound—like the penniless refugee from Communist China who started hawking goods on the streets of Hong Kong as a 13-year-old child and is now a multimillionaire. Or Thailand's billionaire banker Chin Sophonpanich, who got his start by hauling rice bags in Bangkok. Or Malaysia's "Honda King" Loh Boon Siew, who started out making bicycles from scrap metal. The free markets that supported these people continue to nurture prosperity.

Which countries are likely to present the greatest potential over the coming years? And which the least?

Japan, although a mature industrialized nation, has proven itself well able to adapt to changing market demands and new technologies. It dominates many high-tech industries and is now experiencing especially fast growth in ship- and aircraft-building. I predict continued growth in Japan, with investment opportunities to match.

Australia will remain a cyclical economy, doing well in times of inflation but not during recessionary or disinflationary periods. Despite the fairly rapid growth in recent years, Australia's economy exhibits many distressing features, including high unemployment, the highest interest rates in the industrialized world, and massive bureaucracy (not surprisingly, it is the only major Western nation in the region). Investment opportunities will reflect these fluctuations.

Hong Kong, which remains under lease from mainland China to the British crown until 1997, may continue to grow and develop rapidly, though China remains a wild card. China's takeover of Hong Kong when the British lease expires may bring things to a crashing halt. The prospects for Hong Kong depend on how fast China opens up and how much it will tolerate in its free-market neighbor.

Malaysia, Singapore, and Sri Lanka have the highest potential for problems because of latent racial and religious tensions. Moreover, Malaysia and Sri Lanka depend largely on commodities (rubber, palm oil, and tin) that are in gross oversupply on world markets.

On the brighter side, Korea should continue to exhibit above-average growth, even for this region. And Thailand will probably experience the greatest growth over the coming years.

How does one invest in the Pacific economies? The easiest and best way is through the stock market, which offers instant quotations, instant liquidity, the chance to invest in small amounts, and the opportunity to invest without visiting the countries. Each of these nations has its own active stock exchange, with shares

in a broad range of local companies. Most of these markets have done very well in recent years, far outperforming the US market. Only Singapore, Malaysia, and Australia have lagged.

Before we look at what to buy, we should briefly consider the state of the major stock markets.

Japan, the largest stock market in the region, has experienced the greatest long-term growth. Its index rose from less than 60 to over 600 in the last 20 years—a tenfold increase! The growth has been very steady, with no sustained downturns. However, Japan's stock market is one of the most expensive in the world. Whereas a "standard price" for a stock to trade is about 1.25-1.5 times its book (breakup) value and 12-15 times its current earnings, the Japanese stock market is selling at an average of 2.7 times book value and 26 times earnings.

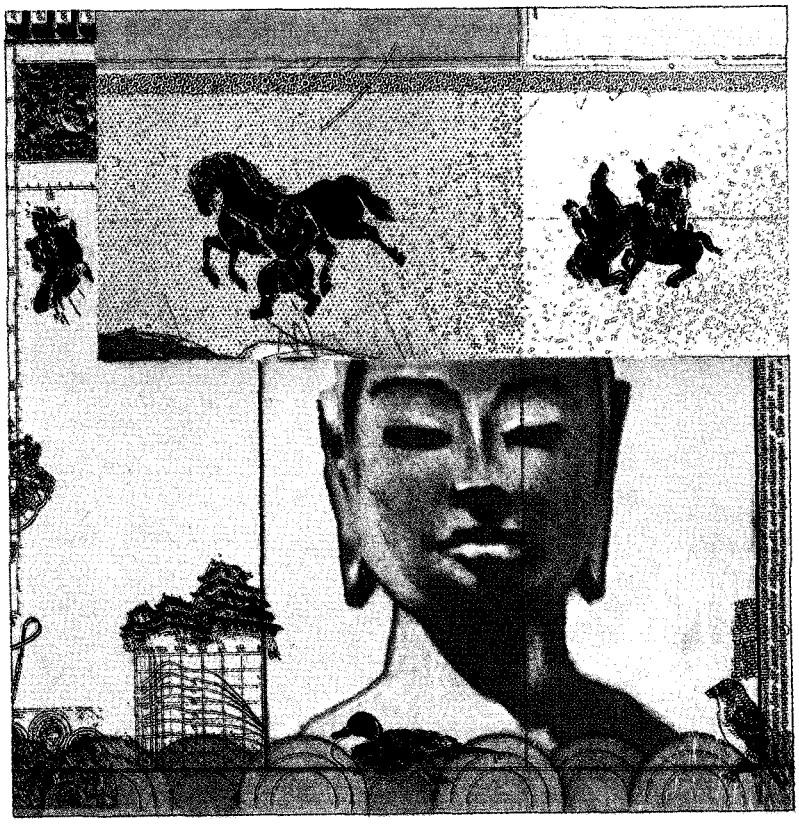
Hong Kong, in contrast, tends to be an extremely volatile market, both in the short and long term. Its growth has been impressive, shooting up from 100 on the index in 1970 to 1200 today. But during that period, the stock market moved like a wild roller coaster. Between 1972 and 1974, Hong Kong stocks lost, on average, over 90 percent of their value. In the next four years they increased their value 10 times; then in the next three years they lost over half their value again. Investors must ask themselves if they're ready for this kind of ride.

The Australian stock market has seen quite strong growth in the last four or five years but continues to lag behind the world average. It remains moderately cheap, particularly for US investors who can buy Australian stocks with the still-strong US dollar (the Aussie dollar has lost some 25 percent of its value in the last 18 months and has hardly moved since the US dollar's dramatic decline against most currencies in the past year). The main opportunities here continue to be the resource stocks—particularly gold shares.

Now that we've surveyed the markets, what are the best investments? Many Japanese, Hong Kong, and Australian stocks are freely available in the United States. But if you want broad exposure to the entire region, including the smaller and possibly fastest-growing countries, you'll need to invest in a mutual fund. A good one is GT Pacific (601 Montgomery St., Suite 1400, San Francisco, CA 94111, 415/392-6181). This has a minimum investment of only $500 and is quoted every day in the *Wall Street Journal.* It invests in stocks in all the Pacific Rim countries, with an emphasis on Japan, Australia, Hong Kong, and Singapore.

If you want to be more selective, here are my specific recommendations:

• Japan: The stocks which will do best in the coming year or two are the major blue-chip exporters, which have been knocked down by the market recently in response to the rising yen and protectionist fears. In my opinion, these stocks as a group are now cheap enough to buy again. A rising yen, though it may hurt exports, will increase the profits from your investment. If you invest $1,000 in a Japanese stock when the yen is at 200 and convert back to dollars when the yen is at 150, you've made a profit even if the stock hasn't moved.



Buy Fujitsu, Toyota, and Fuji Photo, all well-known names which trade on the over-the-counter market in the United States. You could also buy the Japan Fund, a closed-end mutual fund which trades on the New York Stock Exchange and invests primarily in large blue-chip companies.

• Hong Kong: Swire Pacific, a major conglomerate with interests in real estate and transportation, is well placed to profit from the opening up of China. It trades over the counter in this country.

• Singapore/Malaysia: Although these are two separate exchanges, they are linked because most stocks on each also trade on the other. My favorites are two new issues by airline companies that have recently been partially privatized: Singapore International Airlines and Malaysian Airline Systems. These don't trade yet in this country, so some brokers may have difficulty buying them. A good internationally oriented broker, however, can easily obtain them.

• Australia: The Australian gold-mining industry is growing at a rapid rate and threatens to overtake Canada and the United States within a decade. The stocks are very cheap right now, and if we're on the verge of a new gold rise, these stocks will do very well. I recommend Jingellic, Southern Resources, and Regent Mining. These trade in the United States on what are known as pink sheets, which tabulate the recently issued securities of emerging growth companies not yet listed on the major exchanges.

It's relatively easy to buy most of these stocks. But

you should not put less than $1,000 into each issue or the commission costs will be too high. You should also deal with a broker who has some knowledge of international markets. I can recommend three such brokers: in Florida, Huberman, Margaretten at 800/327-1067 (for Florida residents, 800/432-1016) and International Assets Advisory at 800/327-5703 (for Florida residents, 800/432-4402); and in California, Dennis Hardaker at 800/243-3355 (for California residents, 714/962-6661).

Any one of these stocks may not do well. A basket of them, however, will allow you to participate in the continued Pacific miracle. ◻

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Procrastinator's Guide to Financial Planning

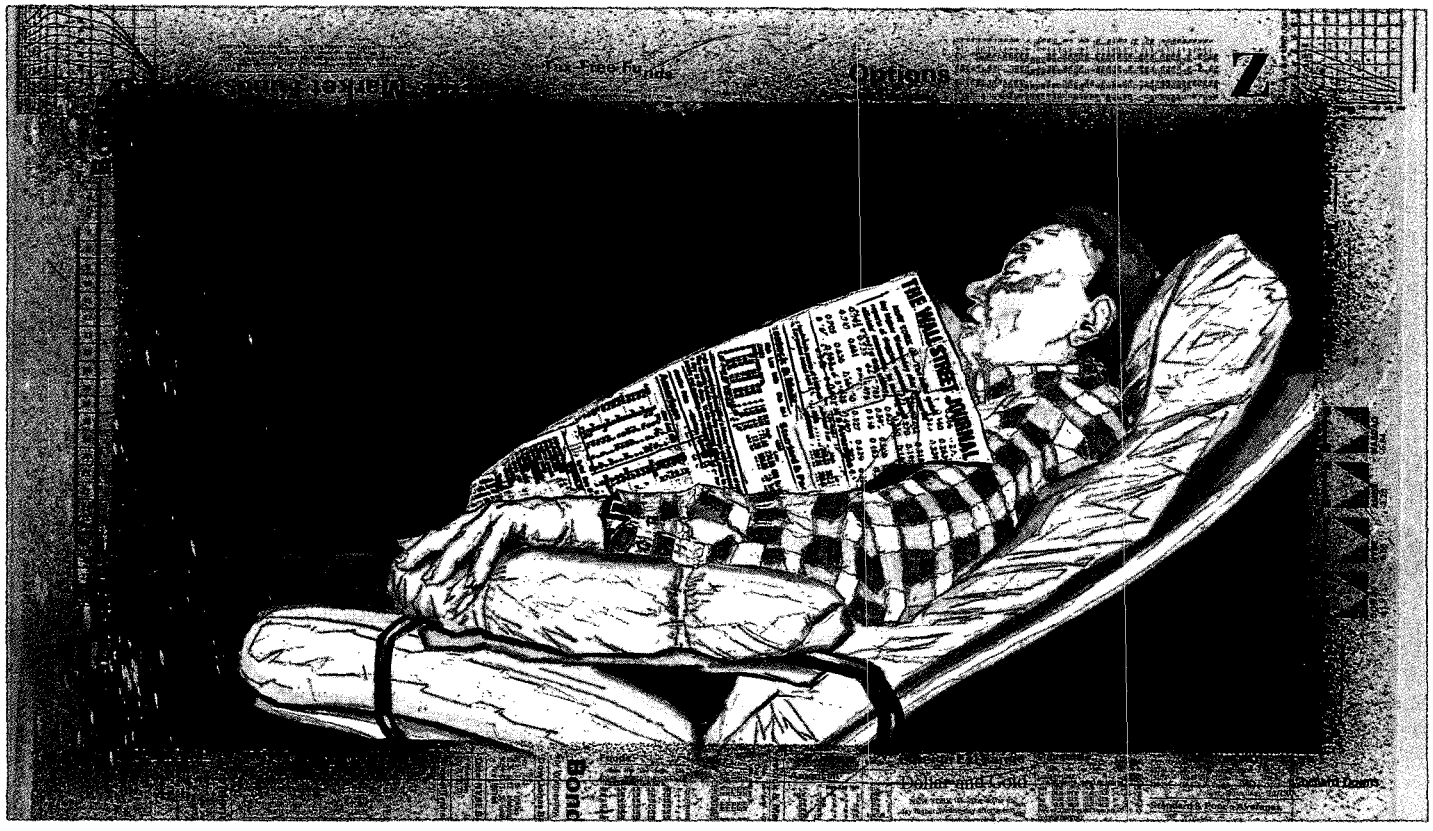
Getting started when you'd rather delay.

By Gary North

A successful financial planner is an entrepreneur, and entrepreneurship is essentially two skills. First, you have to be able to make accurate forecasts of the economic future. Second, you must be able to plan efficiently. If you have these two skills in greater proportion than your competitors, you will make a profit in whatever market you're in.

In other words, profit—what's left over after you've paid all other expenses—is based on your ability to forecast the future and to plan efficiently for that future. That's the heart of profit—there's no other source of profit.

As you read through this special financial issue, you will find writers of varying persuasions, with varying



predictions. And you could end up coming away almost utterly confused about exactly what the future will be. Now some will say that there are good reasons for having this kind of confusion. One standard reason is that everybody ought to have the best information on a wide number of opinions, so they can make better decisions. That may be, but when people hear a wide variety of opinions, they tend to get paralyzed and don't make *any* decisions.

Whatever you learn from the articles presented here, you need to take at least preliminary steps at applying what you've learned. In what follows, I present some things to think about that will help you to make decisions about your future and to deal with the future in an efficient way.

I, of course, have my own opinions about what the future holds, but you're going to have to draw your own conclusions about what's ahead: deflation or inflation, depression or boom with crash, price controls and rationing, military crisis...Whatever decision you make, however, the *plan* you establish in order to meet that forecast is absolutely crucial. In fact, the plan is even *more* important than the forecast, because you can change your mind about the future, about what to expect. Conditions can change; your opinions can change. You may come into a lot of money. You may lose a lot of money. But the point is, the self-discipline of a plan will help you recover from a crisis, if anything will.

Financial planning, then, is the central focus of any long-term investment program. But planning is not simply forecasting the future better than anybody else. It is also a program of self-discipline—of saving and investment—that will enable you to compensate for whatever errors you make in forecasting the future.

When you sit down to create a financial plan, start by asking yourself three simple, preliminary questions: What do I want to accomplish? How soon do I want to accomplish it? And how much am I willing to pay?

Now you can't answer these questions perfectly in advance, because your opinions will change. But you have to get at least preliminary answers to those three questions in order to inaugurate a systematic financial program.

These questions force you to take the crucial first steps of setting specific goals and thinking them through. Professional money manager Dick Fabian, of the *Telephone Switch Newsletter*, says that the difference between the investor who winds up rich and the speculator who doesn't is that the first one has specific goals in mind and the second one doesn't.

"When I ask an individual, 'How much do you want to make when all this is over?'" says Fabian, "the standard answer is: 'As much as I can.' That man won't make it." But if the man comes to him with a specific figure of what he wishes to accomplish, Fabian says, "I can work with that individual."

After you've got those first three answers down, the next question is, Will I discipline myself? That's a tough one. The numbers don't tell you anything. You've got to know yourself. And you can start learning by studying, by taking a good look at various aspects of your personal situation.

A good place to begin is with your retirement program. Does it contain a lot of shares of the company you work for? If so, get out of that program. Even with the discount that the company may be giving you to buy in, you're vulnerable to a double-whammy: if the company goes belly-up, you lose your job *and* your retirement benefits. You don't want to be invested in the same institution that provides your income.

You should also look closely at how well your retirement program is doing. If you are not outperforming inflation by at least 5 percent, find a better way of providing for your future. Either get the money out if you can, or put less money into the retirement program—do your own program on the side instead.

Planning is not simply forecasting the future better than anyone else. It is also a program of self-discipline—of saving and investment—that will enable you to compensate for whatever errors you make in forecasting the future.

If you've got to pull out of the program, what are you going to do? Starting a Keogh plan might be one possibility. You might not be legally permitted to get a Keogh, however, if your employer provides a program. But talk to an accountant and see what can be done—maybe you can become an independent contractor instead of a salaried employee. At the least, you can get an IRA. One way or another, though, you've got to do the very best to run your own money.

The other great concern about retirement programs is that the government may change the rules on them. Already it has flushed out billions and billions of dollars from retirement programs, which are the largest single untapped pile of money in the country. They're probably worth $1.2-1.3 trillion.

I expect that Gramm-Rudman is not going to work, that Congress won't cut the deficits enough. So the government will go looking for untapped funds. But they'll have to look for untapped funds that aren't closely monitored by the public, where the public has basically put its mind on hold and said "call me when it's over." And those funds are to be found in retirement programs.

I see coming a day when the government says, "We have found some bankruptcy in retirement programs, and here is what we are going to do. We have created a new government-assured, guaranteed retirement bond program. And we're going to require all IRS-approved tax-deferred retirement programs to put x percent of their funds in these absolutely government-guaranteed security retirement bonds. This is going to stop the crooks from ruining your future." They won't go as

high as 80 percent—maybe only 10 or 15 percent. But when that day comes, cash in your retirement plan if you can. Pay your penalty, pay your back taxes, pay whatever you need—but get out of that system. The end is coming. And I think it's going to happen within this decade.

After analyzing your retirement program, turn to that area in which many of us hesitate to act: life insurance. People don't like to think they're going to die. In fact, insurance people are taught never to use the words *die* or *death*. Instead, they say, "What would happen to your family if you went to work today and never came back?" But my attitude regarding death and life insurance is that life insurance premiums shouldn't kill you. Yet people pay extraordinary amounts for life insurance—or for what they *think* is life insurance—and they're getting absolutely killed. One credit-card company, for instance, offers a plan to pay off your card bill if the family's breadwinner dies. It costs something like $25 per $1,000 of coverage. At that premium, the company will be rolling in money if it can get people to buy the plan. And people will buy it, because they don't think.

> The difference between the investor who winds up rich and the speculator who doesn't is that the first one has specific goals in mind and the second one doesn't.

You need competitive insurance, and insurance companies *are* competitive. They're after different people, in different age groups, and different companies give you better deals depending on how old you are. Most of you, especially those under 45 years old, can easily cut your expenditures by $300 to $600 a year. And you can put that savings into whatever investments you choose.

The next step in devising a financial plan is family budgeting. This is where things get tough. Sit down with your family and find out where you can cut. Look at your assets and look at your lifestyle and ask yourself if you really have to spend as much as you do. That means not only budgeting but budgeting to a goal. It's tough to budget if you don't have a goal. You must know *why* you're resolving to cut back your spending.

So you set goals as a family decision. And you decide that achieving these goals is worth the sacrifice of cutting the budget now. That way, you can do it.

Now just as you must budget your money, so too must you budget your time. This is vitally important, because you can't replace time. The adage that "you only go around once in life" is pretty accurate. That slogan sold a lot of beer, because it's true.

There's a great story that wonderfully illustrates the importance of budgeting your time. In the 1920s, Charles Schwab was head of Bethlehem Steel—one of the most powerful businessmen in the world. And on retainer he had the man who invented public relations—or if he didn't invent it, he convinced everybody he invented it, because he was such a great PR man. He was the PR man for the Rockefellers, the Carnegies, Schwab, and all the major corporations. His name was Ivy Lee.

One day Ivy Lee was sitting with Schwab, and Schwab was complaining that he was having terrible management problems. He would take a stack of work home, he told Lee, but he couldn't get caught up. Lee said, "Well, I think I could help you with that."

"Really?" Schwab asked.

"Yeah," Lee said. "I think I could."

"What would it cost?"

"I'll tell you what," Lee answered. "I'll give you the program that will solve your problem. Try it out, and if it works, pay me what you think it's worth."

Schwab said, "That's a deal!"

So Lee picked up a piece of paper and a pen and wrote, "A, B, C," and gave it to Schwab. "What's this?" Schwab asked.

"When you go home from work," Lee answered, "write next to A the most important thing that you *have* to do the next day. At B, list the second most important thing, and at C, the third most important thing. Don't do B until you've taken care of A, and try not to go home tomorrow with A left undone."

"That's the secret?" said Schwab.

"That's the secret."

> Just as you must budget your money, so too must you budget your time. You can't replace time. The adage that "you only go around once in life" is pretty accurate. That slogan sold a lot of beer, because it's true.

Within one month, Schwab sent Lee a check for $25,000—in 1927 dollars—for that particular tip!

How do you get your time budget into shape? You can start by walking into your family room right now with a pair of wire cutters—and you know where you must go. You will not see Dan Rather any more. You will not see *Dynasty* any more. You will cut the plug on the TV. Television is called "free entertainment"—but how much income do you forfeit by watching TV instead of working? Ten bucks an hour? Thirty bucks an hour? Some of you are worth a hundred, maybe two hundred bucks an hour, maybe more. Yet TV is free entertainment, right? You just sit there—and the thing

eats away your income. The real money that people are paying for "free" TV is astronomical, if they would have put that free time into entrepreneurship. Over a lifetime, TV may be costing you millions and millions of dollars!

In budgeting your time, consider your work situation as well. If you're not getting a good enough return from your employer, cut time out of your job. Work for *yourself*, not for your employer. Give an honest 40 hours a week, but for anything above 40, there had better be *big* compensation. I don't mean time-and-a-half—I mean a piece of the company. Better yet, start your own business.

And no matter how old you are, even if you are retired, you can't afford to stay out of the work force unless you have $200-$300,000 of *active working capital* in reserve. Retirement avoidance is the name of the game.

If you are systematic with your plan, then you're disciplining yourself to do the best that you can. Conversely, only by establishing a systematic, self-disciplined, goal-oriented plan can you keep from slipping into financial oblivion. And that's why you've got to start a personal financial program right away. ◧

Gary North is editor of the biweekly economic reporting service Remnant Review *and author of* Life Insurance Premiums Shouldn't Kill You *(American Bureau of Economic Research, 1986).*

On the Other Hand . . .

In the end, you can't take it with you.

By Stephen G. Barone

In last year's financial issue, I recommended hysterical paralysis as an investment strategy. I suggested that we very small investors admit to our own fear, ignorance, and docility in order to avoid doing anything more stupid than what might befall us anyway as a function of mere happenstance.

I will venture to say that a review of the performance of the various markets available to the very small investor will bear out my recommendations. Any poltroon could have realized a healthy three- to four-percent capital gain over the last year if only he or she had sat tight and not fooled with things that are real hard to understand unless you get a subscription to the *Wall Street Journal*, and that costs over 100 bucks.

In spite of all this, hostile letters keep pouring in to my investment newsletter, *Financial Nihilism*, from those who heeded my advice and kept significant investment capital out of stocks. I do not want to be mealy-mouthed about this. Let me state in all candor: *Maybe* this was not timely advice.

But it's not as if the stock market was foolproof during this last year. Egged on by so-called discount brokerage houses—which offer no advice, but whose order-takers giggle a lot at the stupidity of your trades—many very small investors have ventured into the stock market armed only with the advice of kindly uncles and vindictive brothers-in-law. I offer myself as an example.

On the advice of a woman who claims to hold an MBA in finance, I purchased 200 shares in a chain of Mexican fern-bar restaurants at 16 bucks a throw, each with the par value of a floured tortilla. One year later, my investment isn't worth the cost of the nachos plate. At the local franchise near my office, I indignantly identified myself as a shareholder when they refused to take a check. So informed, they called authorization before they would consider my Visa. Later, I find that the woman was awarded the MBA as part of a divorce settlement. She put her husband through college, etc., etc.

Something else to remember: Americans enjoy convenience. So when the department store where one buys hardware, appliances, garden supplies, and leisure suits suddenly advertises financial services, there is temptation to impulse-invest, which is a lot more dangerous than coming home with a quartz-digital rectal thermometer that you might later admit you didn't really need.

Be leery if the financial planner is the same guy who last week sold you a vacuum cleaner and a year's supply of paper refill bags. You might walk out of there with three polyester shirts, a set of socket wrenches, some weather stripping, and 400 shares of a mutual fund that invests exclusively in gourmet-popcorn futures.

I could go on. But suffice to say there is no use getting hot and bothered about rates of return on investments. You cannot take it with you. And just in case you can, we'll talk next time about what might be the exchange rate up there. ◧

Children's psychologist Stephen G. Barone has most of his capital tied up in the Ukrainian dairy industry.

By Mark Skousen

Antidote to Death and Taxes

I know I'm taking a big risk, but I'm going to discuss a financial topic that normally bores people to tears. Be forewarned, however. If you skip this article and turn the page, you'll be missing out on one of the most exciting investment opportunities of the 1980s.

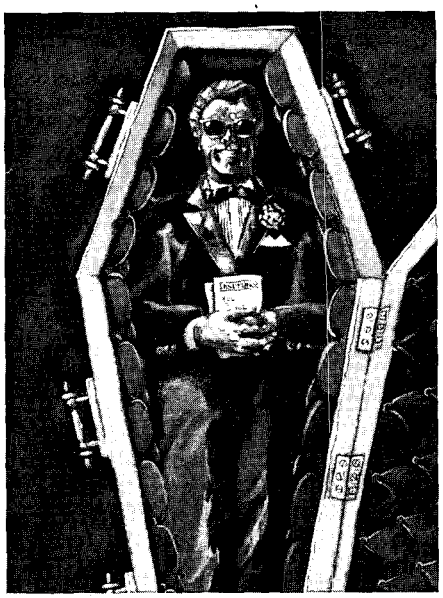
Okay, here's the subject: insurance. Before you go to sleep, you should know this fact: the insurance industry has gone through a major revolution in the last 10 years and now offers the most exciting tax-free investment vehicles on the market. In many ways, they are more versatile and practical than tax-free retirement plans or secret foreign bank accounts.

Prior to the insurance revolution, insurance products were definitely not consumer-oriented. Traditional whole-life policies were heavily "loaded," meaning the agent made huge commissions, usually exceeding the first-year premiums. Cash-value insurance was so expensive that it required customers to pay monthly. The cash value inside the policies typically grew at a slow 3 percent or less, even while inflation was raging at double-digit rates.

But all that has changed. In the face of double-digit inflation and high interest rates, the traditional whole-life policy took a beating. Old whole-life was just too expensive, so new customers sought cheap annual-renewal term, which was simply death insurance with no savings buildup.

The insurance industry responded by offering incredibly low rates—a 40-year-old could buy $100,000 in annual-renewal term for a first-year premium of $150 or less. Since then, rates have risen a bit, but there are still bargains galore. (Want a quote from five insurance companies that specialize in annual renewal and level term? Write or call Insurance-Quote, P.O. Box 790127, Dallas, TX 75239, 800/972-1104 or 214/490-7720.)

Yet term insurance is just the tip of the iceberg. The industry has created several investment programs, the hottest new one being the single-premium whole-life policy. This policy is like a bank certificate of deposit, a tax-free municipal bond, and a paid-up life-insurance policy



MICHAEL KNEPP

all rolled into one. The basic idea is simple: in old insurance plans, you paid an annual premium and the cash value built up slowly. In the new, single-premium plans, you make just one payment and *all* of it goes toward the cash value. The cash value earns a market interest rate, currently around 7.5 percent (depending on the insurance company).

This is a no-load (no front-end commission) product, so 100 percent of your money goes to work immediately. Like old whole-life policies, the cash value accumulates tax-free. You can also borrow from the cash value at low (2 percent or less) interest charges. Finally, you get a substantial paid-up life-insurance policy along with it. For example, a 50-year-old putting in $10,000 would get about $25,000 in insurance.

According to David T. Phillips, an independent insurance agent who specializes in single-premium plans, the best deals are available from Equitable, Confederation Life, Old Line Life, and Fireman's Fund. All are rated A+ by Best & Co., the insurance rating firm, and minimum investment is only $5,000. For more information, write or call David T. Phillips & Co., 1255 W. Baseline Rd., Suite 160, Mesa, AZ 85202, 800/223-9610 or 602/897-6088.

Now here's the ultimate tax shelter, just announced: the first no-load, single-premium, "variable" whole-life plan. It's a mouthful, but it offers a chance to earn 35 percent or more on your cash value tax-free! How? Through Discovery Life Plus, a single-premium plan offered by the largest insurance company in the world, Prudential. Prudential offers eight different types of investments for your cash value, including a common stock fund that increased 35 percent last year, a bond fund that increased 25 percent, and a money market fund for those who wish to sit safely on the sidelines. You can switch among funds up to four times a year.

Prior to Discovery Life Plus, there were several other "variable" plans available, but they were heavily loaded. Crown and Monarch (sold by Merrill Lynch) offered them, but you had to make 11-12 percent on your money the first year just to break even. Clearly, Prudential's no-load product is better. The insurance coverage is also one of the best I've seen. A 50-year-old investing $10,000 can get nearly $40,000 in insurance.

The insurance industry has gone through a revolution all right, and frankly, I think it's better for all concerned. The old-line insurance agent, who used to get 100 percent or more on first-year premiums, probably doesn't care much for these newfangled products that pay only 3-4 percent of the premiums. But perhaps what they lose in percentages they can make up in volume, now that customers are coming back in droves.

The only clear loser in this deal is the IRS, which continues to pester Congress to change the rules. Last year, the House considered making the "cash value" in whole-life plans taxable, but was deterred when the insurance lobby had customers write thousands of letters to their representatives. I suspect, however, that the issue is not dead, especially if these single-premium plans grow in popularity. Be prepared—you might have to join a letter-writing campaign.

Mark Skousen, editor of the investment newsletter Forecasts & Strategies, *is adjunct professor of finance and economics at Rollins College.*

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By John Dentinger

Freedom's Justice?

Last year, at the age of 35, Alex Kozinski became the youngest person in this century named to a federal appeals court (the Ninth Circuit Court of Appeals). He is mentioned as a candidate for the next Supreme Court vacancy. Married and with two children, Kozinski is described by most as a conservative, though a few say he is more libertarian. He calls himself a "classical Republican," his political philosophy being "to oppose totalitarianism, because I grew up under communism and I think it is an evil system."

Kozinski was born in Bucharest, Rumania, in 1950. In 1961, because they were Jewish, his family was allowed to leave Rumania. They traveled first to Israel, but soon went on to the United States.

The family arrived in Baltimore with $5 in their pockets, but various Jewish organizations found them an apartment and a job for Kozinski's father. The parents soon scraped together enough money to buy a small grocery store. But his parents, both survivors of Nazi concentration camps, found the Eastern winters hard, and the family moved to California.

They told their son his job was to learn, and Alex studied economics at UCLA, which "stands for University of Chicago at Los Angeles," he jokes. He went on to graduate first in his class from UCLA Law School in 1975.

For the next year, Kozinski clerked for a judge on the Ninth Circuit Court of Appeals. The following year, he clerked for Chief Justice Warren Burger. "I was fascinated with the process," he says. "Ever since then, it has been my ambition to be a judge."

After the clerkships, he joined a nine-member Los Angeles law firm, rather than a large, name-brand firm. Kozinski, who speaks four languages in addition to his moderately accented English, discovered that the firm's international specialty was "not all it's cracked up to be. It's a lot of domestic law with people who talk funny. I can do that all by myself," he laughs, displaying his characteristic humor.

He returned to Washington, D.C., in 1979 and became an associate at Covington & Burling. Retaining his ambition to be a judge, he says he "let people know whenever the occasion arose that that was my goal."

Alex Kozinski

He let the right people know. In 1979-80, he devoted his spare time as a volunteer legal adviser to Ronald Reagan's presidential campaign. "Ed Meese would call and need research on a legal issue, and there would go my weekend," recalls Kozinski, who says he has admired Reagan since his gubernatorial days in California.

His volunteer work paid off. Kozinski served as deputy legal counsel to the president-elect's transition team, then worked in the White House until June 1981, when Reagan appointed him special counsel to the Merit Systems Protection Board, which handles cases brought against the government by its civilian employees.

His critics claimed that his service on the board indicated a "harsh and cruel" manner. During Senate debate on his appellate confirmation, Sen. Carl Levin (D-Mich.) charged: "He is exceptionally intelligent... but he lacks judicial temperament, is prone to anger, and is lacking in compassion." Kozinski responds, "When I came in, I cleaned up the office and made people start working or get fired. I demand a lot, and I felt I should be as discriminating with the taxpayers' money as if it were my own."

Next, when Congress reorganized the US Claims Court, Reagan tapped the 32-year-old Kozinski as its chief justice. Kozinski streamlined everything from the phone system to the way judges render decisions. He cut down on the number of written decisions and encouraged decisions directly from the bench. "My feeling is that if I can't look [litigants] in the face and say my judgment, there is something wrong," he says. Under his leadership, the court successfully handled a greater number of cases with one-third less staff. His controversial appeals court nomination (he was approved by the Senate 54-43) followed.

"I decide cases on the law and the facts," Kozinski says, "but when appropriate, I try to do justice." What happens when the law is antithetical to justice? "I believe in applying the law. But when there's latitude, I believe in taking it. I agonize over my decisions as a judge. I try as best I can to understand what the law is, to understand what my function is, what discretion I have available to me; and I have frequently reached results which I thought were necessary under the law... but which I thought were wrong from some philosophical or human point of view."

Contrasting his position with that of academicians like Richard Epstein and Bernard Siegan, who argue for judicial activism to counter decades of statist decisions, Kozinski says that as a judge he is strongly bound by precedent, and in a position to make only incremental improvements.

Bound as he may be by precedent, Kozinski at least alludes in his decisions to something of whose existence most judges seem unaware: the market. Whether his general sympathy for liberty in the abstract will translate into an advance for liberty in the concrete, only time will tell. In the meanwhile, it will be worth our applying to Kozinski the strongest test judges themselves apply to laws: strict scrutiny.

John Dentinger is a free-lance writer in Los Angeles.

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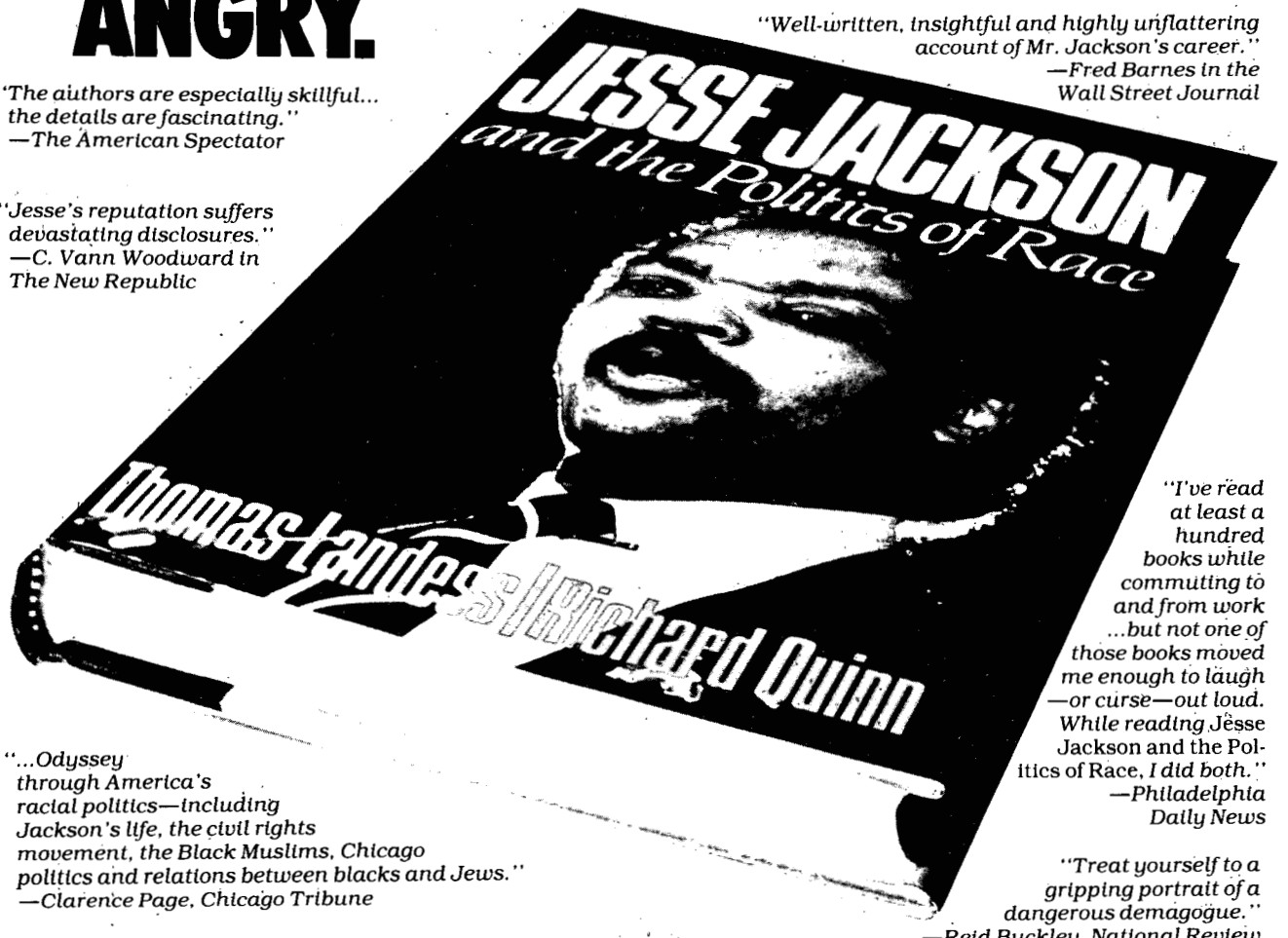

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Musical Politics, Political Music

By Stephan L. Burton

ILLUSTRATIONS—SAM McCAY

Music has become ever more entwined with politics in the course of the 20th century. Perhaps this should come as no surprise. After all, what art form, or, for that matter, what significant aspect of human endeavor, has escaped the ubiquitous politicization which has plagued modern times? Still, there remains an element of the incredible in the spectacle of warring ideologies which has given rise in the West to crusades of "progressive" critics and academics against "reactionary" composers and listeners, and in the East to purges of "formalist" or "decadent" conspirators against the public taste. This is a strange fate for an art which served in the 18th century as courtly entertainment and in the 19th century as a vehicle for the self-expression of romantic individualists—an art which necessarily stands apart from real life, possessing none of the representational directness of painting or the symbolic precision of literature.

Compounding this irony is another: proclamations of musical freedom have issued from the same intellectual quarters as those doctrines of "scientific" socialism which have demanded a politico-economic order of unprecedented restrictiveness, while partisans of individual liberty have often seen the "liberation of the dissonance" and the erosion of formal traditions as decadent descents into irrationalism. The bounds of emotional expression have expanded to encompass violent extremes welcomed by the "progressives," and many people who view the 19th century as the ideal have nonetheless deplored this expansion as a perverse or wicked departure from universally valid standards of beauty.

There may be less to this contrast than meets the eye. Supporters of individual freedom have all too often found themselves playing the role of reactionary, not out of any exaggerated respect for tradition as such, but simply because the tradition of America happens to be largely one of reason and liberty. As for the left, it notoriously seizes every opportunity to disguise its every raid on remaining personal liberty as the creation of some new, previously unknown freedom.

There is clearly an element of this sort of double-talk at work in the case of the Second Viennese School's 12-tone system, which forcibly "frees" the composer from the restraints of traditional tonality by imposing a straitjacket of rules which makes the establishment of key not only dispensable but impossible. The freedom thereby created is not freedom from arbitrary standards set up by human authorities but freedom from the nature of hearing itself—just as political freedom from human-agitated aggression has been increasingly pushed aside in favor of freedom from wants imposed by nature, such as hunger and ignorance. In each case, attainment of the new "freedom" requires abolition of the old.

But what about composers such as Mahler, Bartok, and Stravinsky? In their case it seems to be genuine musical libertarianism which is denounced by traditionalists, including many political libertarians—especially those influenced by Ayn Rand. These composers' violations of traditional restraints on tonality, dissonance, rhythmic freedom, and formal structure are attacked as crude and atavistic, and the emotions expressed in their works are pronounced inappropriate or even evil.

A case in point is Kyle Rothweiler's article, "Stravinsky: Fabulist of Evil" (REASON, November 1985). According to Rothweiler, Stravinsky's corrupt values, as both a modernist and a Christian, made him impotent to express anything but evil. Rothweiler asserts that Stravinsky reached the peak of his development with the portrayal of primitive savagery in *The Rite of Spring* and declined thereafter into stale formalism and empty religiosity. Subsequent letters to the editor agreed that Stravinsky's work reflects "the collapse of Victorian presuppositions and standards, and the onset of amoral and immoral totalitarian bestiality" and complained that his work "assaults the ear with senseless brutality."

It would be easy enough to defend Stravinsky from this attack simply on the basis of the many works that don't fit into its scheme: the exuberant *Petrushka*, the elegantly cool *Apollo* and *Orpheus*, the charming *Pulcinella* and *Jeu de Cartes*, etc. Even *The Rite of Spring* is not such an obvious case. Spring really is a period of quite literal renewal, and one need not be a savage in order to celebrate it; the concluding sacrifice is a dance of ecstasy, not an unwilling victimization. But such a defense misses a deeper point which applies to far more than just Stravinsky. Might a view based on the morality of the emotions expressed in a piece of music merely serve to justify evading the responsibility to face a challenging new style? Is emotional expression of primary value in music?

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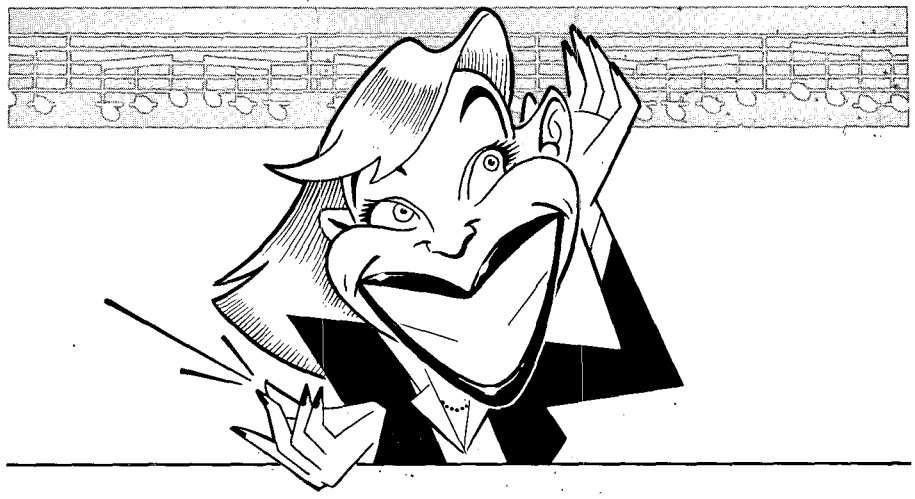
tor Serge Koussevitsky, Stravinsky himself asserted that music is incapable of expressing *anything*. Few have taken this claim very seriously—either that it is true or that Stravinsky even *thought* it is true. Obviously there is a sense in which it is absurd: a great deal of music, including Stravinsky's, successfully evokes a whole range of feelings and images. But there is another sense in which Stravinsky was right. Though music *can* express things, that is not what makes it music. In other words, music *qua* music is not expression but ordered sound. To illustrate the significance of this distinction, consider the case of another modern Russian composer, Dmitri Shostakovich.

For decades, Shostakovich was represented in the West as a loyal communist and his music as the ultimate expression of official Soviet aesthetic doctrine. His symphonies were accompanied by programs relating them to colorful events in the history of the revolutionary struggle and invariably ended in noisily optimistic finales proclaiming the "dawn of humanity" under Lenin and Stalin. The apparently naive bombast of these works won them little critical favor in the West, where more praise was given to his more privately expressive string quartets and song cycles, in which the main concern was usually a typically Russian obsession with death.

All this changed with the posthumous publication in the West of a book purporting to be Shostakovich's memoirs, as related to Solomon Volkov, entitled *Testimony*. The testimony turned out to be a bitter contempt for Soviet communism and everything connected with it. The supposedly optimistic bombast of his symphonic finales was revealed as deliberate and savage irony. Hidden programs were reported. For example, the 11th symphony, subtitled "The Year 1905" and assertedly celebrating the martyrs of an abortive prelude to the 1917 revolution, was described as in fact a bitter commentary on the 1956 Hungarian uprising which immediately preceded its composition.

Western liberals, always reluctant to believe that the Soviet people were not just as fooled by Stalin as they were themselves, were quick to question the book's authenticity. But its account of the significance of Shostakovich's music has been confirmed more recently by such authoritative sources as Mstislav Rostropovich and the composer's son Maxim. The great Russian soprano Galina Vishnevskaya has gone so far as to write in her memoirs that "so long as people have not been forced down on all fours, Shostakovich's art will serve forever to unmask the false, base, and cynical communist ideology."

These revelations have sparked new interest in Shostakovich's works and a thorough revaluation. Yet one hears exactly the same notes, melodies, harmonies, and rhythms now as before. If his symphonies were emptily bombastic before, when they were optimistically communist, why should they be less so now that they are despairingly anti-communist? Or, more to the point, if we can find deep musical individuality and vitality in these works now, didn't they have that before, whatever extra-musical associations they carried?



If the "message" of a piece is so utterly ambiguous that it can support such totally opposed interpretations, then it can hardly be the "message" that accounts for its interest. It must be something else which does *not* change and is *not* ambiguous. But clearly this is just the sounds themselves, heard *as* sounds.

A friend of mine hears *The Rite of Spring* as an expression of creative industrial dynamism and thereby finds it a tremendously powerful and exciting piece. Yet these are the very same sounds which Kyle Rothweiler hears as an expression of pure evil. Anyone who doubts the possibility of the former interpretation should listen to the work and imagine it as accompaniment to the action in Hank Rearden's steel mills in Ayn Rand's *Atlas Shrugged*. They might be astonished at how well it fits the role. No doubt Stravinsky himself would not approve—but, after all, the man is dead.

The point is that good music can stand many extra-musical interpretations while remaining in essence the same music. Conversely, good intentions alone do not make for good music: one can imagine works produced by perfectly rational people expressing all the "right" emotions about all the "right" subjects which would yet be perfectly dull. Clearly there is an element in music—the essential element—which has nothing to do with moral or political values. This element is sensual vividness, which can only be known by experience and cannot be theorized *into* existence where it is missing or *out of* existence where it is present. It ultimately matters not at all whether a composer's intentions were rational or irrational, noble or base, good or evil. All that matters is this: does his work surprise us anew with the miraculous power and beauty in the sensual experience of hearing? In the case of both Stravinsky and Shostakovich, the answer can only be yes.

In this profound sense, all worthwhile music affirms sensuality even if the composer intended otherwise—just as the works of writers like Milton or painters like Bosch subvert their own explicit intentions through the intoxicating brilliance of their portrayal of that which they think they are fighting against. Music, being more abstract than the other arts, achieves this paradox most easily: there is no obstacle to forgetting what the composer intended and simply listening to the music.

In the end, music best liberates the human spirit not by submitting itself to the demands of ideological struggle but by liberating itself from all laws originating other than in its own nature as affirmation of human sensuality.

Stephan Burton is a philosophy student at the University of California at Berkeley.

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David and Goliath

By William Niskanen

The Triumph of Politics: Why the Reagan Revolution Failed, by David Stockman
New York: Harper & Row, 422 pages, $21.95

David Stockman's much-discussed book is a modern version of the David and Goliath story. As in the story passed to us in the Book of Samuel, David takes on Goliath by himself. In Stockman's version in *The Triumph of Politics*, however, Goliath wins the encounter and David is banished (forever?) from the royal court. The ancient story in which David wins has inspired generations of the faithful, even if it is not a guide for prudent conduct. The modern story in which Goliath wins is less inspirational but more instructive.

Stockman's portrait of David is not flattering but is not really very important. At each successive stage of his odyssey from future farmer to campus radical to divinity student to congressional aide to congressman to budget director to investment banker, he turned his back on the "rabbi" who had guided him through the prior stage. David ultimately repudiated everything that had been important to him—the Christianity of his parents, the Marxism of his college professors, Pat Moynihan's realism, John Anderson's independence, the visions of Jack Kemp and Phil Gramm, and the wisdom of Ronald Reagan. Like many bright, energetic people, he was impatient with and sometimes disrespectful of those who attained their position by other qualities, such as loyalty. He leaves the impression of a tattler, a snitch.

According to Stockman, David had only a naive grasp of both economics and politics. His economics ranged from confused to conventional. Early on, he was fascinated with the Laffer curve that was supposed to illustrate that increasing tax revenues could accompany declining tax rates. But then he came to believe that "a tax cut will increase revenues only if you start in a zero inflation world." This is merely confused. There was never any basis for believing that a general reduction in tax rates would increase total revenues, regardless of the inflation rate, and no administration economist or budget projection ever made that claim. In fact, however, the reduction in the highest income-tax rates and in the tax rate on capital gains appeared to increase revenues, again independent of the inflation rate.

David also grossly and consistently overestimated the short-term economic effects of the deficit. On this issue, his views, however wrong, were broadly shared. He first argued that the deficits would increase inflation. After inflation dropped sharply in early 1982, he shifted his argument to the effect on interest rates. After interest rates also dropped sharply in late 1982, he shifted his argument again. Adopting the strange reverse-Keynesian position of Wall Street, he then argued that the deficit would prevent a recovery. In the spring of 1983, after the recovery was under

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way, he argued that the deficit would abort the recovery. After the recovery proved to be unusually strong, David's arsenal of apocalyptic conjectures about the economic effects of the deficit were exhausted, and he went into internal hibernation until the administration was again willing to address the budget deficit after the 1984 election. There is ample reason to be concerned about the deficit, but the failure of the apocalypse to arrive on schedule undermined his credibility.

David's political vision was also clouded. He began work as the budget director with a belief that a small group of "anti-statist conservatives" could reverse the momentum of the welfare state. After recognizing that this was not possible, he concluded that it was wrong to try. Both of these judgments, I believe, are wrong. The Reagan administration achieved a substantial defense buildup, a reduction in tax rates, some deregulation, and a substantial reduction in inflation because there was a substantial consensus for each of these elements of its economic program. It was less clear whether there was any consensus for reducing domestic spending, because it had not been tried and Reagan had not tested the political response to such cuts in the 1980 campaign. Some cuts were achieved in 1981, but less than enough to offset the defense increase and the tax cut. The limits on the consensus for domestic budget cuts, however, would not have been recognized unless the administration had proposed more-substantial changes.

Now that Stockman is older and wiser and richer, he concludes that "there is no room [in this process] for scribblers, dreamers, ideologues, and passionate young men." What a sad comment. Some other David, however, will continue to be an important part of this process, by articulating some other vision, by pushing the system, by testing the limits on the consensus of Congress.

He also concludes that his own failure to slay Goliath by one blow "proved that the American electorate wants a moderate social democracy." There is no reason, however, why the "settled consensus of professional politicians" has any relation to the preferences of the electorate as long as a large part of government spending is financed by borrowing. Does anyone seriously contend that the electorate would support a 40 percent increase in personal and corporate taxes to pay for the current ac-

tivities of the federal government?

Most other reviewers of Stockman's book have focused on the David story and rendered a negative verdict. That is understandable but unfortunate. Understandable because David's comments about most of the people with whom he worked for years seem like bad manners; understandable because the reviewers share some envy that Stockman received a $2.3 million advance for his book without so much as an outline. Unfortunate, because Stockman's portrait of Goliath is as unflattering as his portrait of David but much more important. It is awkward for the establishment media, which had cultivated Stockman as an internal critic of the administration, now to acknowledge that he has some very critical insights about the American political process.

Among those that he still seems to be sorting out are the following:

- The politics of campaigns, which avoids hard choices, undermines the potential to address hard choices after the elections.
- A large part of the welfare state was created under Republican presidents and is protected by Republicans in Congress.
- Majority rule can lead to outcomes that are wholly inconsistent.
- The process of correcting errors in the government is very slow and uncertain.
- A lot of people in the Reagan administration had no commitment to Reagan's policy agenda.
- Congress is an extraordinarily parochial body with a very short time horizon.
- A good many people in high government positions are not very swift.
- A large part of the federal budget involves transfers to people who are not poor.

There are not many people around Washington who share David's outrage about this process.

My major reservation about Stockman's portrait of Goliath is his conclusion that most people must really support Goliath after all. That Goliath survived David's slingshot, however, is not sufficient evidence of much public support. In politics as in war, one should be careful about attributing virtues to the victors. From my perspective, David's outrage was more attractive and more productive than his concluding rationalization.

William Niskanen, a former member of Reagan's Council of Economic Advisers, is now chairman of the Cato Institute in Washington, D.C.

Ayn Rand: The Story of a Complex Life

By Stephen Cox

The Passion of Ayn Rand, by Barbara Branden
Garden City, N.Y.: Doubleday, 400 pages, $19.95

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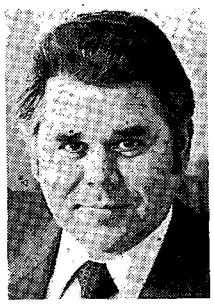

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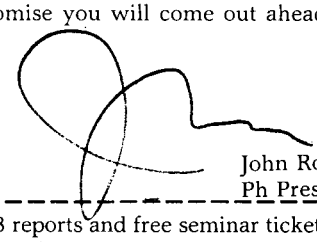

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Rand was an intensely private person; no biographer is likely to answer all the major questions about her. Something more remains to be discovered, for instance, about her intellectual development during the 1930s and 1940s, about the ideas she adopted, rejected, or revised while creating her philosophy. More needs to be revealed about her intellectual relations with other people who contributed to individualist thought; one would like to have more-detailed information about her reactions to the ideas of such people as economist Ludwig von Mises and author Rose Wilder Lane, as well as about her acquaintance with them.

Other memoirs may help to fill out the picture, but Branden's book is especially good at suggesting the originality, and often the charm, of Rand's character. We see Rand learning to dance at the age of 62, like Socrates in his old age learning to play the lyre; Rand receiving compensation for artistic property looted by the Italian government and planning to spend the money in the most frivolously celebratory way she could; Rand collecting background information for the railroad scenes in *Atlas Shrugged* and brimming with joy when she was allowed to drive the engine of the Twentieth Century Limited.

Branden's work, however, is more than an account of Rand's life; it is also a study of Rand's effect on Branden's own life and on the lives of other members of her innermost circle of friends. It is an analysis of tragically destructive relations between leader and followers, teacher and students. For this tragedy, Branden says, "no one was blameless."

Rand, as she describes her, was an individualist philosopher whose contradictorily authoritarian personal style transformed her moral teachings into "a set of dreary duties and a source of agonized emotional repression." She was a romantic artist intent on making everything in her life, including herself and her friends, conform to her ideal conceptions; when reality proved difficult to mold, she was often overwhelmed with exhaustion or reduced to baffled rage. Branden and her then-husband Nathaniel, the psychologist whom Rand once designated as her "intellectual heir," learned from Rand an exalted philosophy of liberty and rationality, but they surrendered their individual judgment and initiative to their teacher. The consequences for all were failure of objectivity, emotional entanglements from which no one knew how to break free, and at last an explosion of anger and frustration that severely damaged the movement that Rand and her friends were attempting to lead.

Branden's *Citizen Kane*-like story is frequently a painful one, but she tells it with considerable tact and insight. Her book is not a cynical exposé of human weaknesses but a reflective consideration of the problems that may be involved in trying to live by one's highest ideals. No member of a political or philosophical movement should remain innocent of reflection on the issues raised here. Yet Branden does not allow her discussion of personal weaknesses to detract from the permanent importance of the ideals that Rand courageously attempted to exemplify. Those ideals—reason, freedom, joy—may have been better expressed in her literary works than in some aspects of her life. Well then, the works remain.

Stephen Cox teaches literature at the University of California in San Diego and is the author of The Stranger Within Thee: Concepts of the Self in Late-Eighteenth-Century Literature.

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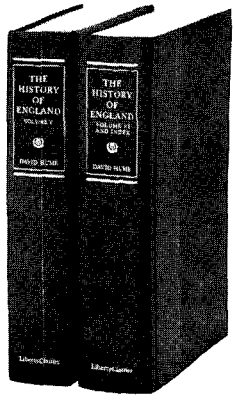

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Life was not always rosy for me. I got involved in a bad business investment two years ago and I lost more than $11,000. I lost every cent I had, even money I didn't have. I worked as a clerk by day and a waiter by night. I never really liked cleaning tables, but what else could I do? I had to stop disappointing my loved ones. I remember coming home on Mother's Day really anxious to call my mother, only to find the phone disconnected. I went through my mail and prayed for some good news, only to find an envelope with no return address—it contained an eviction notice. We were fortunate to have relatives that were kind enough to let us stay with them. I didn't know that being in debt could hurt so much. I prayed for a way out.

My friend Gary who was in the same financial boat as me told me a story that changed my life forever. He told me very excitedly "I received a funny-looking letter in the mail. When I first saw it, I thought it was another creditor making a claim on me. The letter told me about money that was rightfully mine—it said that if I signed the enclosed form, I would receive $2,592.59. Things were so bad that I had nothing to lose, so I signed the form neatly and returned it to the company.

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This great opportunity really excited me. I was compelled to find out more about it. What could I lose? I found out everything I could and began to work on a plan. I put it into effect. My prayers were heard. To my relief I started to make more money than I have ever seen in my life for doing practically nothing. In fact my income last month was $50,076.78.

I got a C-minus average in high school—one year, I got an F in English. By no means was I ever considered to have the smarts. **All you have to do to make up to $2,000 an hour is thumb through phone books and make a few calls.**

My family and I have always loved the beach, so last summer we moved into a gorgeous home. My wife told me it was her life long dream to own a brand new car. You should have seen the tears of joy when I surprised her with her new $20,000 car. Later I bought a 1986 Mercedes 560 SL. That cost me over $50,000.

The amount of money I was making was incredible. Just as a hedge against taxes, I bought two 3-bedroom houses valued at $200,000. I asked everyone in my family what they wanted the most and they said they wanted to see all of us together going places. In the past month we have visited three countries. In fact, we take a vacation every month. It's great seeing the joy in everyone's eyes as I spend more time with them. **All of this for thumbing through the phone book.**

Twenty-five billion is just setting there waiting for someone to recover it. One out of ten Americans have forgotten or lost money in bank accounts, stocks, insurance premiums, etc., worth as much as the amount of $10 bills you could lay end-to-end around the world: **$25 billion.** I will disclose a plan to you that will show you how to get your hands on this money.

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Let me give you a random sample list from the state of Wisconsin. (Addresses are included in the lists.)

Owner's Name	Property	Amount
Drinka, Teresa, A	Savings	$10,891.47
Lavelle, Samuel	Stock Proceeds	$21,529.61
McDonnell, Martha	Savings	$12,843.78
Meyer, Thusneida	Savings	$18,489.18
Patterson, Arthur	Savings	$14,629.24
Stien, George	Savings	$57,525.83

This listing is only a minor portion of the $25 billion in unclaimed property that is waiting for you.

California still hasn't found the owner of one account worth $186,000. Someone in Massachusetts left behind $400,000. North Carolina owes one person $500,000. **All you need is a phone and a phone book to get your share of $25,000,000,000.**

Sample Proof

Bonnie Goldstien, a well-known syndicated newspaper writer who doesn't know very much about finding people, located the owners of $4,100 in two and a half hours with two telephone directories—she said so in the "San Francisco Sunday Examiner & Chronicle."

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My Guarantee

Send for my complete guide to recovering unclaimed money. Read the simple formula that has been tailored for each individual state. Sit down and make the required few phone calls and directory searches. **After following the simple formula, you must be able to recover up to $10,000 in one day** or your complete payment will be returned to you.

Everything in this ad is true, but I don't expect you to believe me. I want you to hear it from a very credible source. **Contact any politician and he or she will verify how much unclaimed money the states have.**

This opportunity can give you a new home, car and all of the luxuries money has to offer. Think of what up to $10,000 today could do for you. Could you use this kind of money? There is a definite flaw in our revenue system, and you can profit from it. I pride myself on making your decision simple. **You can either enjoy up to $2,000 or be one hour older—the choice is yours.**

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Dear Dave,

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Women: What Is Just?

By Loren Lomasky

***Gender Justice*, by David L. Kirp, Mark G. Yudof, and Marlene Strong Franks**
Chicago: University of Chicago Press, 246 pages, $19.95

Can issues of gender and justice be discussed without a forced march to the ideological barricades? The happy evidence of this book is: yes. Authors David Kirp, Mark Yudof, and Marlene Strong Franks are keen observers of the theory-mongers but manage to elude capture by doctrinaire slogans of the left or the right. The result is a genuinely illuminating book that combines theoretical adroitness with intelligent discussion of policy alternatives.

Clear good sense rather than piercing novelty characterizes the treatment: there is little here that John Stuart Mill had not anticipated over a century ago. But Mill lived in a more somber age. *Lesbian Nation* had not declared independence and the *Eagle Forum* had not yet flown. Contemporary sexual-justice politics exhibits a variant of Gresham's Law: sensationalism drives out sensibility. One hopes, though, that *Gender Justice* will not be lost in the backwash.

Both radical feminists and conservatives—the authors prefer the term *naturalists*—find the outcroppings of sexual differentiation everywhere. The former interpret differentiation as oppression and call for revolution; the latter see it as rooted in biological determinism and seek to fix traditional sexual roles in legal cement. Each, however, professes to *know* what gender justice entails and is eager to grasp political levers to give effect to its vision. These sworn enemies are *outcome-oriented*. Theory provides a blueprint of the good society; if reality fails to match up, then it is ipso facto unjust. Dispute concerns only who it is that has bona fide credentials as philosopher-king or philosopher-queen.

An outcome-oriented conception of justice necessarily is insensitive to *process*. If all that matters is the destination, the route taken to it is irrelevant. In particular, if the uncoerced choices of men

book hints *a selective mention of books received for review*

Investment newsletters have been an influential and intriguing phenomenon of the financial world for several decades now. Business writer Peter Brimelow presents a witty survey of these newsletters—and the sometimes brilliant, sometimes bizarre personalities behind them—in *The Wall Street Gurus* (N.Y.: Random House, 238 pp., $19.95).

Meanwhile, if you're thinking of starting your own business, *Entrechic: The Mega-Guide to Entrepreneurial Excellence*, by C. E. Crimmins (N.Y.: Amacom, 143 pp., $6.95 paper) offers hilarious advice on how to get started and keep on going in business. It is, by the way, *un*chic to raise seed capital by selling sperm or vital organs, playing the violin outside theaters, playing the lottery, advertising in the back of Arabic magazines, or going on game shows.

But seriously, folks, also on the subject of entrepreneurship is *The Start-Up Entrepreneur*, by this month's author (see page 44) James R. Cook (N.Y.:Truman Talley Books, 306 pp., $18.95). This business start-up cookbook offers sober advice and encouragement to would-be entrepreneurs.

We all know that staying in business requires turning a profit. And a lot of people think that the most unethical business is likely the most profitable. But good ethics is good business, according to David Freudberg, who draws on dozens of interviews with business leaders and experts in *The Corporate Conscience* (N.Y.: Amacom, 248 pp., $18.95) to reach this conclusion.

Meanwhile, the moral and ethical soundness of modern corporate business operations is debated by authors of diverse perspectives in *Corporations and the Common Good*, edited by Robert B. Dickie and Leroy S. Rouner (Notre Dame, Ind.: Notre Dame Press, 160 pp., $16.95).

Butler Shaffer moves beyond a focus on corporate institutions to look at modern institutions in general. In *Calculated Chaos* (San Francisco: Alchemy Books, 338 pp., $10.95 paper), he advances the novel thesis that our modern institutions, with their organizational hierarchies, rules, and regulations, generate social conflict.

Discrimination—the extent to which it exists and what to do about it—remains a pivotal policy concern in the '80s. In the workforce, allegations of sexual discrimination have given rise to appeals for "equal pay for equal worth." Jennifer Roback criticizes this notion of comparable worth as inimical to the cause of women's economic advancement in *A Matter of Choice* (N.Y.: Twentieth Century Fund, 53 pp., $7.00 paper).

Those inclined to ponder life's complexities might try *The Anthropic Cosmological Principle*, by John Barron and Frank J. Tipler (N.Y.: Oxford University Press, 706 pp., $29.95). If you can move past the mouthful of a title to the pages within, you'll find some fascinating analysis here on, for example, the notion of spontaneous order in the market and society, the long-term potential for creating wealth, and the relationship between technology and economic freedom. Great stuff here for the dedicated reader.

Arthur Hogue's *Origins of the Common Law*, first published in 1966 and now made available by Liberty Press (Indianapolis, 272 pp., $10/$4.50), provides a historical discussion of English common law and social order. D. F. B. Tucker's *Law, Liberalism and Free Speech* (Totowa, N.J.: Rowman & Allanheld, 212 pp., $32.50/$13.50) tackles ever-prominent issues pertaining to freedom of speech—are there legitimate principles for restricting or denying freedom of speech? The author argues for using a framework of individual rights—as opposed to social utility—as a basis for examining these issues.

Finally, a note to aspiring economists or professors searching for a basic economics text that will keep students awake—and informed: try David (son of Milton) Friedman's *Price Theory* (Cincinnati: South-Western Publishing, 560 pp., $23.95). Yes, all the basic economic theory is here, but the text is sprinkled with gems that inject a little humor into the process of learning economics, gems like Friedman's Law for Finding Men's Washrooms or his Rotten Kid Theorem.

—L. S.

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and women generate distributions not in accord with the favored pattern, then those choices cannot be allowed to stand. They will be impugned as manifestations of "false consciousness" or "moral decay." The sole and conclusive evidence that choice is defective is, of course, its clash with the blueprint. Outcome-oriented conceptions of justice differ widely amongst themselves, but they are alike in being inherently illiberal.

The authors of *Gender Justice* have no blueprint to peddle. For them, justice is not the realization of a master design but means instead "enhancing choice for individuals, securing fair processes rather than particular outcomes for the community." If individuals are free to act in accord with their own preferences, to vote with their feet and not only in polling booths, then justice is embodied in the process.

But will the outcomes that emerge from millions of discrete decisions approach optimality? The authors reject the question's presupposition: "The premise is not that individuals will choose well, by some objective criterion, for we do not know what 'well' means in this sense. Individuals will act in what they regard as their own best interests, and that seems justification enough."

There is a bit of rhetorical excess in the preceding sentence. For would-be sages, free action in accord with each individual's own lights is problematic. And it is a mistake to suggest that partisans of liberty must stand mute when confronted with the question of justification. Indeed, the authors' own argument belies the statement. They do not rest their case on a self-evident value of liberty but instead tie it to other values that we have reason to acknowledge. The *quality* of our choices matters—but so too does the *making* of choices. That is, we prize *autonomy*. The opportunity to set one's own direction rather than being subject to the will of even a benevolent other is what separates adult from child, free person from slave.

Legal restrictions historically imposed on women were not, the authors show, motivated by male antipathy to females (as radical feminists argue). In this respect, the frequently invoked analogy between sexual and racial discrimination breaks down. Rather, restricting the options of women was overwhelmingly advocated on paternalistic grounds. Women, the argument went, were too fragile and vulnerable to be confronted

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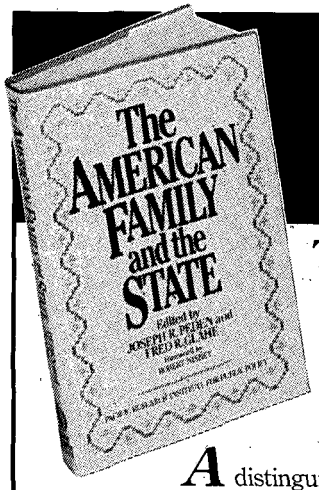

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with the rigors of the public realm. But even if sexual regimentation was well-intentioned, it intrinsically denied to women (and, to a lesser but nonetheless real extent, to men) the dignity of self-determination. That things go well for people is important; but that people determine for themselves how things will go is also important.

A related point is that direction in accord with a blueprint is unresponsive to new information and opportunities. Whether imposed from the left or the right, it is rigidly conservative. Experiments in new patterns of life are ruled out. Alternatively, "concentrating on processes, rather than imposing some unknown and unknowable collective preference, allows society to evolve and enables individuals to continue to transform themselves. Unpredictability and self-transformation...are not just artifacts of our time but represent desirable human traits on which a policy of relying on individual volition can be grounded." The authors return to this Hayekian argument throughout *Gender Justice*. A minor blemish on the volume is that no acknowledgment of Friedrich Hayek appears in the text.

Possibly the authors are fearful of being seen as embracing libertarian themes too closely. They make haste to assure the reader that "a 'night watchman' state is not what justice entails." As this is accompanied by only the most perfunctory argument, one can only assume that it amounts to the flashing of "progressive" credentials. Similarly, they intone, "there is no reason to believe that freeing the individual from restraint is always preferable to providing an opportunity." True enough, but beside the point in response to the question of what the proper role of *state* activity should be.

This is not, then, exactly a clarion call to the banner of a thoroughly free society. Nonetheless, *Gender Justice* stands head and shoulders above most treatments in the area. Its discussion of the legal status of women, past and current, is remarkably informative and acute. The Supreme Court is shown as having been overwhelmed by the burgeoning pace of sexual litigation over the past two decades, unable to attain jurisprudential cogency or even consistency in its various rulings. The authors point the way to a more intelligent and more principled judicial stance.

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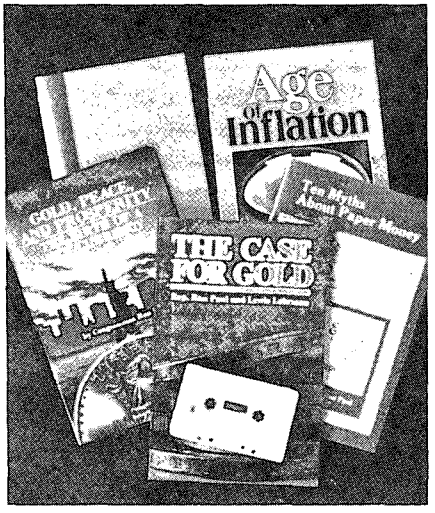

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providing a common metric by means of which wages can fairly and efficiently be set. "Comparable worth cannot be coherently implemented, for the comparisons it insists on cannot be made."

Most of *Gender Justice* consists of policy appraisal. Its recommendations are not definitive—no book could achieve that status—but they are informed by conscientious regard for personal autonomy. Their treatment of the AT&T affirmative action program illustrates both that men and women are made better off by the availability of heretofore precluded options but also that their free choices will upset studied allegiance to "goals" (a.k.a. "quotas"). The authors reject the call for federal provision of day-care facilities, arguing that parents are the ones properly situated to make decisions concerning the care of their children. They similarly reject court imposition of sex-neutral life insurance and pension premiums, favoring instead market determinations. Governmental action is, however, necessarily implicated in the setting of tax policy, but here too the authors advocate a tax code that does not discriminate between married and single persons, or for one-wage households over couples both of whom are fully employed.

There are wrinkles of *Gender Justice* that should have been better considered. However, I am unable to cavil much at authors who conclude, "Our distrust of intervention is premised on the belief that any preset outcome imposes a notion of the good life on individuals whom we presume are better able to choose for themselves." This scholarly yet eminently readable volume deserves a wide audience. But will it be heard amidst the cannonades from left and right?

Loren Lomasky is a professor of philosophy at the University of Minnesota in Duluth.

The Inside Story of Military Mismanagement

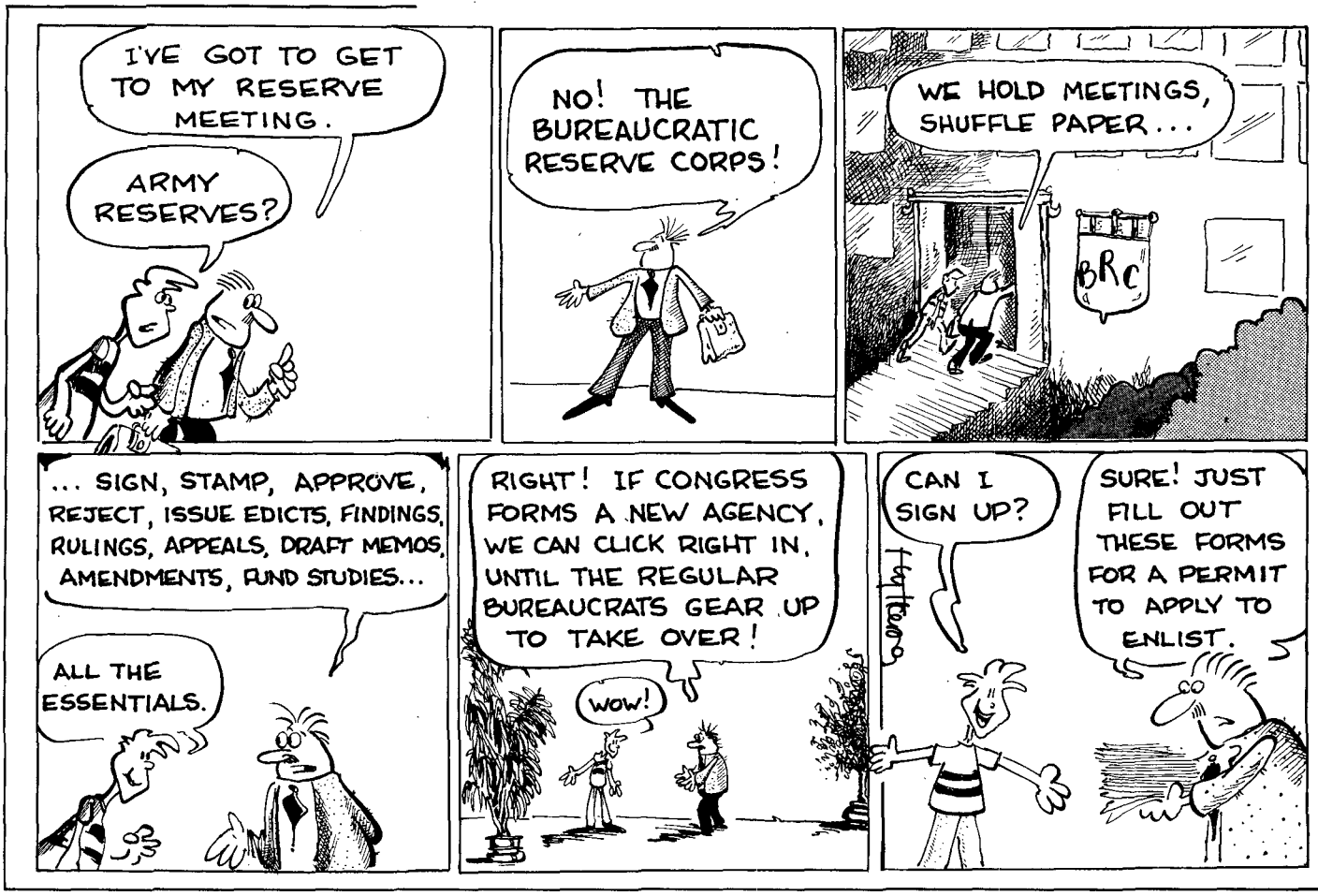
By Jonathan Kwitny

The Pentagon Underground, by Dina Rasor
New York: Times Books, 310 pages, $16.95

Every good journalist who works in Washington has sources like Dina Rasor. She has dedicated what seems to be her whole life to disseminating facts about the issue that consumes her—Pentagon mismanagement. She lives off what pittance she can scrape together from organizations interested in her cause. Her dedication and tirelessness earn her the respect of experts who think

rudebarbs

Randall K. Hylkema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as she does. They leak documents to her and tip her off about developments. She takes this information to reporters from major newspapers, and important stories result. The stories shape legislation, and the reporters whose bylines accompany these stories win awards for them.

Often, news sources like Rasor are at first content with the social benefit they are providing. But eventually they begin to feel an injustice in their situation. They think *they* should get the bylines, the glory, the relatively high salaries.

Usually, however, there is a good reason they are sources and not reporters. Either they can't write very well, or they have a problem putting things in perspective, or both. In the case of Rasor, whom I have never met, probably both. Which isn't to say she hasn't done a great public service over the past few years, possibly greater than we journalists who are better rewarded. She has. Nor is it to say you can't find a lot of valuable information about Pentagon mismanagement in her book, *The Pentagon Underground*. You can.

The book tells plenty about the billions of dollars spent on tanks and the like that don't work, and about phony tests to make it seem that the tanks and the like *do* work. The book validly points out that in the Pentagon's case, mismanagement not only wastes tax dollars but jeopardizes lives and our ability to defend American interests.

But the book is organized as a Rasor memoir. And while some of the naive-young-woman-goes-to-Washington-and-meets-the-power-structure material is educational, most of the tales of her schoolgirl nervousness and the difficulty she has applying her make-up before going on television just isn't as interesting as some editor at Times Books told her it was. The charm of her wide-eyed naiveté vanishes in a few pages and becomes cloying.

What can you say, for example, about chapters that begin: "The clock radio jarred me out of my sleep. As I shook myself awake and began to remember why I was rising so early, the excitement and fear began to pulse through me. I was to appear on the ABC news show *Good Morning America*. The subject I was to discuss I knew well: whether or not to establish an independent office inside the Secretary of Defense's office to test the weapons separately from the bureaucracy that develops and builds them. A year before, I had written an article for REASON magazine on the subject."

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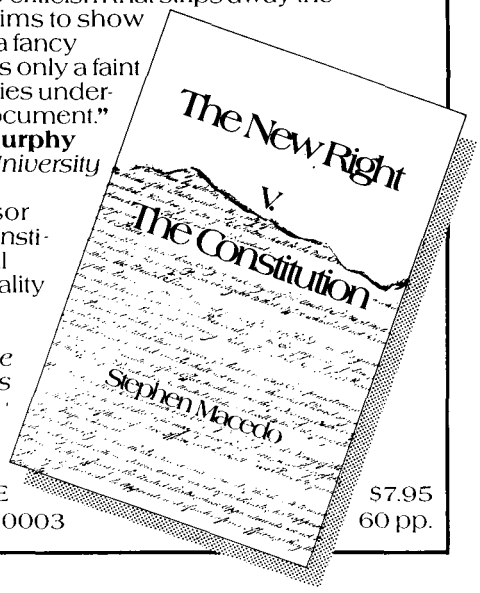

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Well, hello.

Better to go back and look up the article in REASON. Or the original articles written by Walt Mossberg in the *Wall Street Journal*, Bruce Ingersoll in the *Chicago Sun-Times*, and Stephen Webbe in the *Christian Science Monitor*. Their work might have been impossible without Dina Rasor out there digging, but they said it better. Or read James Fallows's *National Defense*. For all the stuffed khaki shirts we meet along the way, this book is more a resource for someone who wants to come to Washington and be a journalists' source like Dina Rasor than for someone who wants to learn about the Pentagon.

There is one lengthy anecdote of particular interest to libertarians—Rasor's unfortunate conflict with Edward Crane, who for a while ran my favorite magazine (the now-defunct *Inquiry*) and continues to run the Cato Institute, a free-market-oriented think tank. Crane was on the board of the National Taxpayers' Legal Fund, which sponsored Rasor's work for a while, and he had her defunded in a dispute.

Crane thought Rasor counterproductive, arguing that the Pentagon is already too efficient and that we have more to fear from its lean than its fat. I think I know just what he meant by that, and I completely agree. Differently phrased by the right mediator, Dina Rasor probably would agree, too. Reading about her feud with Crane was like reading a few months ago about Corazon Aquino and Salvador Laurel, who were given the chance to unseat Ferdinand Marcos in the Philippines and almost blew it because they couldn't come to terms on their political organization.

If such powerful contributors to the public good as Ed Crane and Dina Rasor can't get along, we are never going to get anywhere with the real bad guys.

Jonathan Kwitny is a reporter for the Wall Street Journal *and the author of* Endless Enemies: The Making of an Unfriendly World.

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quotable quotes

■ *I have ever deemed it fundamental for the United States never to take active part in the quarrels of Europe. Their political interests are entirely distinct from ours. Their mutual jealousies, their balance of power, their complicated alliances, their forms and principles of government are all foreign to us. They are nations of eternal war. All their energies are expended in the destruction of the labor, property, and lives of their people.*

—Thomas Jefferson
Letter to James Monroe, 1823

■ *We seem to have reached a stage, in our national evolution, where we have a vested interest in preparation for war. It has become necessary for us to have a powerful enemy.... Russia could revert to free enterprise; or restore an hereditary Czardom, tomorrow; and still our Secretary of State would be compelled to question her* bona fides*... because our economy apparently needs the constant stimulus of a threat of large-scale war.*

—Felix Morley
Modern Age, 1957

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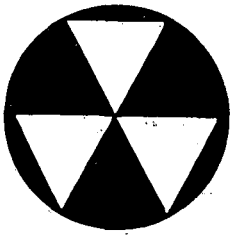

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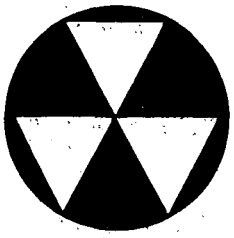

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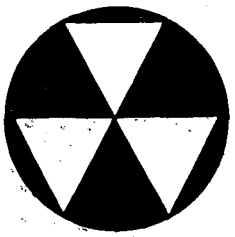

IODINE 131

Within days of the Chernobyl accident I warned my 6,000 readers:

Do not drink more than 63,000 gallons of rain water!

My name is Petr Beckmann. I am Professor Emeritus of Electrical Engineering at the University of Colorado, and I publish a pro-science, pro-technology, pro-free enterprise monthly newletter, *Access to Energy.*

As for those 63,000 gallons, my readers know **why** they are safe. I don't ask them to trust and parrot me, I ask them to think.

In this case, I told them how much radioactive iodine 131 is given to a *healthy* patient in a thyroid check (a cancer patient is given much more): up to 90 microcuries. And I reported the maximum measured activity in rainwater washing out Chernobyl's iodine over the US: 0.00036 microcuries per liter. There's about 4 liters to the gallon; hence 63,000 gallons of "contaminated" rain water "full of fall-out" will give you as much radioactive iodine as you get when you have your thyroid checked.

Does that tiny grain of knowledge make you feel good?

It should, because America's news media and largest periodicals don't have it.

They work by the T&P (trust and parrot) method. They may difffer in whom to trust and parrot; but they share a common inability to evaluate. They will find two opposing viewpoints and manufacture a "controversy;" for they think objectivity lies halfway between the truth and a lie. (Remember how they brought in the Union of Concerned Scientists and other phonies to question the "official assurances of no health dangers"?)

Were you fed the media fixation that Chernobyl was a "meltdown"? *Access to Energy* informed its readers why the Soviets would have thanked their lucky stars if a meltdown had been all they had on their hands.

Access to Energy readers have known for many years that the Soviets do not have containment buildings, for they are more troublesome to build than making new Ukranians; but readers also know why containment buildings are merely safety measures preventing consequences *after* things have gone wrong. And readers were informed why certain things, such as the Chernobyl accident, cannot happen in America: they are not prevented by safety equipment, but by physical laws.

Access to Energy pointed out *at the time* that the Three Mile Island accident would cost more than one life per week: not from any radiation, but in the fuel cycle of the *substitute* power, mostly coal-fired, that had to be brought in to replace the safer and healthier way of generating electric power.

In the Chernobyl accident, *Access to Energy* pointed out how easy it will be for the Soviets to cover up the deaths from radiation sickness and delayed cancers, and why they will not even bother to dilute contaminated wheat with grain from elsewhere. "A little cesium and strontium will give the Russians a more varied diet: like Markey, Solarz, Schroeder, and the other antinuclear breast-beaters in Congress, the Soviets care only about *visible* deaths."

But *Access to Energy* is not just about nuclear energy (which is merely a blatant case of superstition mongering). It is about the truth and how to arrive at it – in all fields.

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viewpoint

By Michael S. Christian

I Was a Victim Of Welfare

I grew up on welfare and it is a raw deal. For about nine years, middle-class life was my lot. Then my father left without a word, never again to provide sufficiently for my mother or her four children. We became welfare recipients. Years later, when I saw him again, he explained that act of abandonment: "Sorry son, but I had to leave, and I knew that the state would take care of you kids and your mother."

The social engineer might call that an example of the disincentive effects of welfare; the welfare eligibility of abandoned families removes the onus of responsibility from the father. But this is also an example of the demoralizing effects of welfare; the integrity of the family is invaded by the state. The small-scale, voluntary interdependence of families—and the sense of responsibility and security that go with it—is threatened by the very existence of welfare benefits. And what benefits can outweigh the deterioration of poor families?

The state, of course, did provide—just enough money for my mother to carry on under constant fear of eviction or loss of welfare eligibility. She would wait in line at a neighborhood distribution center to receive boxes of overproduced foodstuffs such as flour, oatmeal, sugar, powdered milk, powdered eggs, and corn syrup, everything clearly marked "Department of Health, Education, and Welfare." Later, she bought our meals with food stamps, a handy means of publicizing one's dependence.

The social engineer would call this "the elimination of poverty," the greatest virtue of the welfare system. And although the elimination of poverty seems easy to quantify, it is not. A dollar spent on welfare is not equal to a dollar's worth of poverty eliminated. For it is impossible to know in which cases need would persist in the absence of state aid. I will never know how my family would have fared without welfare. Would my father have left in the first place? Would my uncle have helped? Would private organizations have willingly helped provide for my family?

Assuming that nothing but governmental redistribution could have kept us

GWYN STRAMLER

from even worse poverty, there are still costs to be considered that are usually ignored. The state does not give without taking. Yes, it takes from the rich in the form of taxes, but it takes from the poor as well. It takes for itself the right to inquire repeatedly into one's affairs, financial and personal. It takes away privacy and dignity. And remember, the state justifies all this taking and giving in the name of humanity. Gratitude is in order.

Yet every day of the many years that my family was on welfare, I was angry. The indignities of bureaucratic inquisitiveness and my mother's shame were to me the government's way of punishing us for the checks we got in the mail. These feelings of resentment and humiliation have no place in the analysis of the social engineer, yet they are the greatest costs of the welfare system.

The resentment of the welfare recipient is especially burdensome because it has no constructive or sensible direction. When I was a child, who was I to blame? My mother, who after 15 years as a dependent housewife could not earn enough to support a large family? My father, who, thanks to the state, felt that he could abandon his family with moral impunity? Or should I have blamed the state, my humanitarian benefactor?

If anyone is to blame for this mess, it is you—or those of you who are members of the educated, liberal, humanitarian middle or upper-middle class. You have never been poor. You don't want anyone else to be poor. You think something should be done for those who live below some government-determined poverty line. But you never wonder whether the state can take responsibility *for* individuals without taking responsibility *from* them.

Real wealth is seldom money; it is power. That power is exactly what the liberal social engineers and their followers have reserved to themselves by advocating welfare. As a boy, I wondered at the altruism of those who, with no special relationship to me, would give some of their income to my family through taxes. But we all know that welfare beneficiaries almost never take what you really cherish. No need to fear that people of different backgrounds, ideas, or colors might supplant you or even join you at the top of the hierarchy—not under a welfare system.

Redistribution is in your interest. It starches the social fabric. It keeps people in their places. It steals the sense of righteous ambition from the poor. The welfare beneficiary cannot point his finger at you or hold out his hand to his neighbor, because he has been provided for and he does not know that the hidden social benefits of that provision are yours. As long as he looks to you for the next check or the next box of surplus food, you are safe; your real wealth is enhanced.

What should be done? Or, better yet, what can you do? You can keep your money and let go of your sanctum. Eliminate the redistribution of wealth. What will the poor do without your aid? We will struggle, challenge, and win as individuals. Because, as you have always claimed to believe, we are your equals. Otherwise, the best egalitarian ends you can expect from your programs are the rare exceptions—welfare beneficiaries who succeed in your system in spite of it and who want to bite the hand that fed them.

Michael S. Christian is a student at Harvard Law School.

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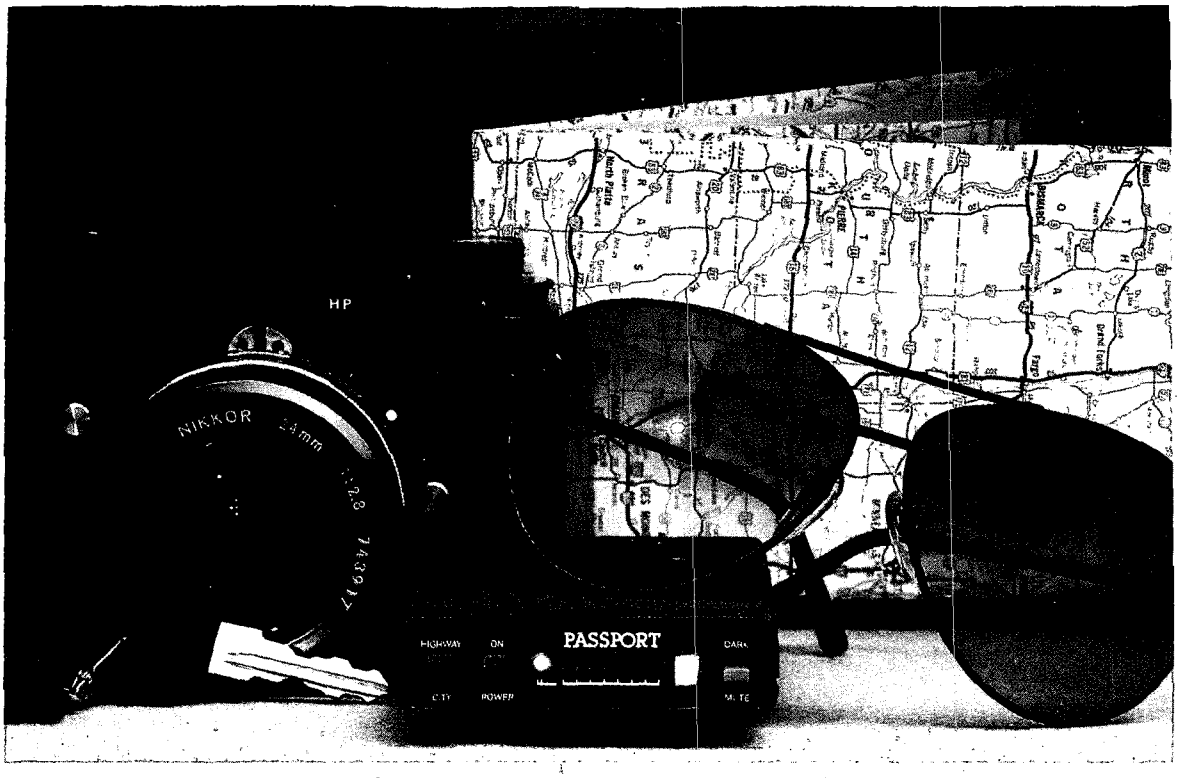

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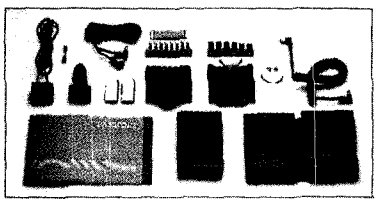

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